



Housing Assistance
Council

RURAL HOUSING
IN THE ADMINISTRATION'S
FY 2007 BUDGET

Celebrating
35 *Years*
1971-2006

\$3.00
March 2006

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This report was prepared by Mark Kudlowitz 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 2007 BUDGET

This report analyzes selected portions of President Bush's proposed Fiscal Year (FY) 2007 budget and discusses their implications for rural housing. The report includes a program-by-program review of funding requests for the Rural Housing Service (RHS) of the U.S. Department of Agriculture (USDA) and for the Department of Housing and Urban Development (HUD), as well as a few relevant programs in other departments.

The Administration's proposed fiscal year 2007 budget must be considered in the context of the current overall federal budget picture. Recent tax cuts have led to a budget deficit and thus to congressional efforts to cut domestic discretionary spending in order to reduce the deficit. According to the Center on Budget and Policy Priorities, federal spending, "measured as a share of the economy, is not above average levels, although federal revenues are well *below* their average level" (CBPP 2006b).

If current and proposed tax cuts are made permanent, as the Administration proposes, another \$9.3 trillion will be added to the deficit over the next 20 years, providing further justification for cuts in domestic discretionary programs. For example, the 2007 budget calls for cuts of 12 percent in housing funding by 2011. (CBPP 2006b)

United States Department of Agriculture Rural Housing Service

The budget for USDA's Rural Housing Service is generally consistent with budgets of the last few years, but proposes more drastic cuts for rental housing. The Administration proposes no funding for the Section 515 rental housing loan program, which produces rental units affordable for the lowest-income rural residents. The Administration is continuing to look for less costly ways to provide new construction of rental housing and suggests almost doubled funding for the Section 538 program, which produces rental housing for more moderate-income populations. To address the potential displacement of rural renters, the budget proposes increasing funding for the Section 542 voucher program.

Slight increases are proposed for Section 502 direct homeownership loans, Section 514 farm labor housing loans, and Section 523 Self-Help Technical Assistance grants.

Highlights from the 2007 proposed USDA RHS budget include:

- ⊞ Section 515 rental housing would receive no funding at all, and three congressional initiatives to help preserve 515 developments would suffer the same fate.
- ⊞ Rental preservation needs – physical revitalization, financial restructuring, and tenant protections – for existing Section 515 developments, as well as \$8 million for administrative expenses, would be funded through a single \$74.25 million pool labeled Section 542 vouchers. The Administration has proposed legislation, not yet introduced in Congress, to enable voucher funds to be used for other preservation purposes.
- ⊞ The Section 538 guaranteed rental housing loan program would almost double, from \$100 million in 2006 to \$198 million in 2007. RHS officials have said in the past that

they expect Section 538 guaranteed loans to be used to refinance Section 515 properties. While Section 538 provides an important resource for some rural residents, it is not intended to meet the needs of very low- and low-income renters.

- ⊞ Section 521 Rental Assistance (RA) contracts would be reduced to two years; several years ago Congress cut the formerly five-year contracts to four years in order to lower the dollar total costs for RA, and this change would lower it further. This change reduces the dollar amount needed for RA in a single year, but it defers to a future year the need for additional funds.
- ⊞ Section 502 single-family direct loans would see an increase of over \$100 million from FY 2006 levels. This would be the first increase in the direct loan program in three years.
- ⊞ While Section 502 guaranteed loans for homebuyers would stay at about the same level as in 2006, the budget suggests limiting eligibility to applicants who are not otherwise able to obtain federally guaranteed homeownership loans – presumably a reference to FHA loans.
- ⊞ The Administration proposes once again to eliminate the Rural Community Development Initiative (RCDI) Program.

Department of Housing and Urban Development

The HUD budget proposes to consolidate the Community Development Block Grant (CDBG) program with three other HUD programs – Rural Housing and Economic Development, Brownfields Redevelopment grants, and Section 108 Loan Guarantees – and cut funding substantially from fiscal year 2006 levels. In contrast to last year's Administration budget, CDBG would remain in HUD but be reduced by over \$1 billion or 27 percent of FY 2006 levels. In addition, 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 "have shown progress in expanding homeownership for their residents" (HUD 2006).

Similar to last year, the Administration proposes to consolidate various community and economic development programs into the Saving America's Communities Initiative (SACI). This year's SACI proposal does not include CDBG, although 16 smaller community and economic development programs across various federal agencies are proposed for consolidation and transfer to the U.S. Department of Commerce. A new \$257 million Regional Development Account would be formed, and used to emphasize the importance of developing economic regions.

Other highlights from the 2007 proposed HUD budget include:

- ⊞ The budget proposes significant cuts for public housing, programs for elderly people and those with disabilities, and lead hazard control.
- ⊞ Increases are proposed for project- and tenant-based rental assistance, HOME, programs for homeless people, housing for people with AIDS, and the Self-Help Homeownership Opportunity Program (SHOP).

Other Federal Housing and Community Development Programs

The U.S. Department of Treasury's Community Development Financial Institutions (CDFI) Fund is proposed in FY 2007 for \$8 million, a significant reduction from FY 2006's \$55 million appropriation. The CDFI program is one of the 16 programs proposed for consolidation under SACI.

Gulf Coast Housing Funding

It is important to note that the Administration's 2007 budget does not request funding for repairs or reconstruction of federally assisted housing in the Gulf Coast region damaged by Hurricanes Katrina, Rita, and Wilma in 2005, "except for making a \$20 million public reserve available to cover the effects of disasters in 2005" (CBPP 2006a). That amount represents a small fraction of what would be needed to repair all assisted housing damaged by the 2005 storms, but is also meant to serve as a contingency fund for disasters in 2007. According to CBPP (2006a), the Administration plans to request \$18 billion for hurricane recovery in 2006 as part of a supplemental request, separate from the 2007 budget. It is not known, however, whether any of this money would be targeted to restoration of pre-hurricane affordable housing

Table 1 includes proposed budget numbers for selected housing programs. More detailed program by program analysis is provided below.

Table 1.
FY 2007 Proposed Budget
for Selected Housing and Community Development Programs

Program (in millions of dollars)	FY 2006 Appropriation (after 1% cut)	2007 Proposed Budget
USDA RHS Programs		
<i>Loans</i>		
502 Single Family Direct	\$1,129	\$1,238
502 Single Family Guaranteed	3,644	3,564
504 Very Low-income Repair	35	36
514 Farm Labor Housing	38	42
515 Rental Housing Direct	99	0
538 Rental Housing Guaranteed	99	198
<i>Grants & Payments</i>		
504 Very Low-income Repair	30	30
516 Farm Labor Housing Grants	14	14
523 Self-Help TA	34	37
533 Housing Preservation Grants	10	10
521 Rental Assistance	646	486
542 Rural Housing Voucher Prog.	16	74
Rental Preservation Revolving Loans	3	0
Rental Preservation Demonstration	9	0
Rural Community Development Init.	6	0
HUD Programs		
CDBG	\$4,178	\$3,032
HOME	1,733	1,916 (a)
Tenant-Based Assistance	15,418	15,920
Project Based Assistance	5,037	5,676
Public Housing Capital Fund	2,439	2,178
Public Housing Operating Fund	3,564	3,564
HOPE VI	99	0
Native American Hsg Block Grant	624	626
Homeless Assistance Grants	1,327	1,511
HOPWA	286	300
202 Housing for the Elderly	735	546
811 Housing for the Disabled	237	119
Housing Counseling	42	42
Fair Housing	46	45
RHED	17	0 (c)
SHOP	20	40 (b)
Lead Hazard Control	150	115

(a) Includes \$100 million for the American Dream Downpayment Initiative.

(b) Funded as part of a new account for Self-Help and Assisted Homeownership.

(c) To be consolidated into the Community Development Block Grant program

USDA RURAL HOUSING SERVICE

The most significant changes proposed in the FY 2007 U.S. Department of Agriculture's Rural Housing Service (RHS) budget relate to rental housing programs. The RHS 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 \$74.25 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 budget would almost double the FY 2006 level for Section 538 guaranteed rental housing. Rental Assistance contracts would be reduced from four years to two. Slight increases are proposed for Section 502 direct homeownership loans, Section 514 farm labor housing loans, and Section 523 Self-Help Technical Assistance grants.

Table 2.
USDA Rural Housing Service Programs
(dollars in millions)

Program (in millions of dollars)	FY 2005 Appropriation	FY 2006 Appropriation	2007 Proposed Budget	Percent Change 2006-2007
USDA RHS Programs				
Loans				
502 Single Family Direct	\$1,100	\$1,129	\$1,238	+ 9.7%
502 Single Family Guaranteed	2,725	3,644	3,564	-2.2%
504 Very Low-income Repair	35	35	36	+ 2.8%
514 Farm Labor Housing	42	38	42	+ 10.5%
515 Rental Housing Direct	100	99	0	-100%
538 Rental Housing Guaranteed	100	99	198	+ 100%
Grants & Payments				
504 Very Low-income Repair	31	30	30	0%
516 Farm Labor Housing Grants	16	14	14	0%
523 Self-Help TA	34	34	37	+ 8.8%
533 Housing Preservation Grants	9	10	10	0%
521 Rental Assistance	592	646	486	-24.7%
542 Rural Housing Voucher Prog.	0	16	74	+ 362.5%
Rental Preserv. Revolving Loans	3	3	0	-100%
Rental Preservation Demonstration	0	9	0	-100%
Rural Community Dev't Initiative	6	6	0	-100%

Section 502 Homeownership Loans. Section 502 encompasses two distinct mortgage loan programs. The direct, subsidized program assists households with low and very low incomes, and the unsubsidized loan guarantee program serves households with incomes up to 120 percent of the area median income.

Demand for these programs is consistently high. At the end of FY 2004, RHS processed more than 33,000 applications, totaling over \$2.5 billion – almost twice the amount appropriated for 2004 – from qualified families (NRHC 2004).

For the first time in a few years, funding for the Section 502 guaranteed loan program is reduced in the proposed budget for 2007, while the Section 502 direct program is increased over \$100 million. The direct program serves a lower income population than the guaranteed program.

Table 3
Section 502 Homeownership Programs
(dollars in millions)

	<i>Direct</i>	<i>Guaranteed</i>	<i>Total</i>	<i>Percent Guaranteed</i>
FY 2005 Appropriation	\$1,100	\$2,725	\$3,825	71.2%
FY 2006 Appropriation	\$1,129	\$3,644	\$4,773	76.3%
FY 2007 Budget	\$1,238	\$3,564	\$4,802	74.2%
Percent Change From FY 2006	+9.7	-2.2%	+0.6%	-2.8%

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 a loan. In FY 2005, the average per unit loan repair cost was \$7,472 while the grant program averaged \$6,281 per unit. Table 4 covers budget and appropriations.

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

	<i>Loans</i>	<i>Grants</i>
FY 2005 Appropriation	\$35	\$31
FY 2006 Appropriation	36	30
FY 2007 Budget	36	30
Percent Change From FY 2006	0%	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 529,493 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 2005 it supported only 783 units and the 2007 budget, like the budgets of the last few years, calls for no new unit production.

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 well under \$10,000 annually. A program serving these tenants

necessarily provides deep subsidies. The program’s former problems have long since been addressed by regulatory changes.

Table 5
Section 515 Rural Rental Housing Loans
(dollars in millions)

FY 2005 Appropriation	\$99.0
FY 2006 Appropriation	\$99.0
FY 2007 Budget	\$0
Percent Change From FY 2006	-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. 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 2007 budget, consistent with positions articulated by Rural Development and Rural Housing Service officials over the past two years, proposes substantial changes in USDA’s handling of prepayments. Proposals made in the budget for 2006 and in draft legislation released during 2005 would move all new construction to the Section 538 guaranteed loan program, allow owners to prepay Section 515 mortgages, and emphasize protection of current Section 515 tenants and physical revitalization of properties that do not prepay.

Specifically, the 2007 budget would replace initiatives created by Congress for FY 2005 and 2006 with \$74.25 million for the Section 542 voucher program, to be used for debt restructuring and revitalization as well as for vouchers for tenants displaced by prepayments. The Section 542 program was authorized in the early 1990s but not funded until FY 2006, when Congress appropriated \$16 million for a demonstration.

It is worth noting that the Administration’s budget for FY 2006 proposed \$214 million for vouchers, debt restructuring, and revitalization. The FY 2007 budget suggests \$74.25 million be made available for the same combination of uses. No explanation is given for the decreased dollar amount from one year to the next. The budgets for both 2006 and 2007 proposed to double the funding for the Section 538 guarantee program and to use it for both developing new units and also refinancing Section 515 properties.

The FY 2007 budget would not provide funding for the incentives currently used to convince owners not to prepay their 515 mortgages. The budget assumes prepayments would be permitted without requiring owners to go through the currently required process, which gives

USDA an opportunity to convince owners to remain in the program and often gives nonprofit organizations and public agencies an opportunity to purchase a property.

The budget relies on congressional passage of authorizing legislation. USDA sent draft legislation to Congress in July 2005 but, as of late March 2006, the legislation has not yet been introduced. USDA’s draft would repeal existing prepayment restrictions. It would provide vouchers for tenants of properties where mortgages were prepaid. Owners of 515 properties would be able to restructure their debts if they were in good standing and their loans were made before January 1, 1992. Finally, in an effort to reduce abuses by tenants claiming to have no income, it would require some tenants to pay minimum rents.

HAC cannot agree with the elimination of funding for the Section 515 program. Currently, more than 2.4 million rural renters have housing problems and the elimination of the Section 515 program will have a dire impact on the available housing stock. The Section 538 guarantee program, while important in its own right, cannot take the place of Section 515 because it serves people with incomes up to 115 percent of area median, considerably higher than the 515 program, which is authorized to house those with incomes slightly above 80 percent of area median. Furthermore, since Section 521 Rental Assistance (RA) cannot be used in Section 538 properties, tenants receiving RA in 515 developments face the loss of that aid when 538 loans replace 515 loans.

Nor are the proposed vouchers a complete 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 needs. The RHS farm labor housing funds are an important resource for developers; funding has always been too low compared to the need, however. The Section 514/516 program has produced only 35,969 units since it began obligating funds in 1962. HAC applauds the budget increase to the loan program and encourages RHS to continue addressing the needs of this population.

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

	<i>Program 514 Loans</i>	<i>Program 516 Grants</i>	<i>Total Program Dollars</i>
FY 2005 Appropriation	\$42.7	\$16.0	\$61.3
FY 2006 Appropriation	\$38.5	\$14.0	\$52.5
FY 2007 Budget	\$41.6	\$13.9	\$55.4
Percent Change From FY 2006	+ 8.0%	-0.7%	+ 5.5%

Section 521 Rental Assistance. The Section 521 Rental Assistance (RA) program is used in conjunction with housing developments funded under the Section 515 and 514/516 programs only (it is not available for tenants in Section 538 projects). Section 521 RA assistance ensures

that residents pay no more than 30 percent of their income towards rent. In FY 2005, 55,428 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 budget further reduces contract lengths to two-year terms and thus is able to propose a decrease in funding from \$653 million to \$486 million. This change would simply defer RHS RA costs to future years.

Table 7
Rental Assistance Funding
(dollars in millions)

FY 2005 Appropriation	\$592
FY 2006 Appropriation	\$646
FY 2007 Budget	\$486
Percent Change From FY 2006	-24.7%

Section 523 Self-Help Technical Assistance Grants. Technical Assistance grants provide nonprofit developers the support needed to run self-help programs. The mutual self-help construction model used by USDA – through which families help build their own and their neighbors’ homes – is politically popular and funding levels have remained constant over the last three budgets. From program inception through 2004, over 36,300 families have participated in the program. A total of 1,612 technical assistance grants have been made. The FY 2007 budget proposes \$37 million for the Section 523 program, a \$3 million increase from FY 2006 levels.

Section 523 Self-Help Land Development Fund. The 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 \$5 million for FY 2006 and the FY 2007 budget proposes the same amount.

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

FY 2005 Appropriation	\$2.0
FY 2006 Appropriation	\$5.0
FY 2007 Budget	\$5.0
Percent Change From FY 2006	0%

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 RHS mortgage financing. This program has never been well funded; traditionally it receives a small appropriation, which is then underused. The 2007 budget requests \$5 million.

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

FY 2005 Appropriation	\$5.0
FY 2006 Appropriation	\$5.0
FY 2007 Budget	\$5.0
Percent Change From FY 2006	0%

525 Supervisory and Technical Assistance Grants. RHS has used the Section 525 authority to fund small demonstrations and special projects. The budget proposal maintains funding levels at \$1 million for this program in 2007.

Section 533 Housing Preservation Grants (HPG). RD state directors have the authority to interchange funds between the Section 533 and 504 grant programs, and the HPG program has functioned at close to \$10 million per year. While the program became law with a \$100 million authorization, appropriations for the program have never exceeded \$23 million in any fiscal year. Program funds were significantly reduced in FY 1995 and reductions have continued, resulting in a negative effect on the program. RHS, faced with a shortage of funds for rehabilitation and repair, chose to favor Section 504 because it is universally available in rural areas, whereas HPG is geographically limited.

In FY 1996 the HPG appropriation was cut to \$11 million and in FY 2000 the program fell to a low of \$5.5 million. Funding for the program has been restored somewhat in the last few years, as the FY 2007 proposal is for almost \$10 million.

Table 10
Housing Preservation Grant
(dollars in millions)

FY 2005 Appropriation	\$9
FY 2006 Appropriation	\$10
FY 2007 Budget	\$10
Percent Change From FY 2006	0%

Section 538 Guaranteed Multifamily Housing Loans. Under the Section 538 program, RHS guarantees loans made by private lenders – generally banks and savings and loans institutions – for the development of affordable rural rental housing with at least five units. 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.

The proposed 2007 budget almost doubles the Section 538 program level from the previous two years to \$198 million. RHS intends some of this money to be used to refinance Section 515 properties. As funding for Section 515 has been reduced, funding for the guaranteed loan program has steadily increased. While Section 538 may seem attractive because its 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 2005, the program guaranteed \$99.199 million in 3,313 units where total development costs were \$338.408 million. Of that total, 71 percent was leveraged – that is, provided by sources other than the loan guaranteed by RHS. This is a 15 percent increase in leveraged funds from 2003.

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

FY 2005 Appropriation	\$100
FY 2006 Appropriation	\$99
FY 2007 Budget	\$198
Percent Change From FY 2006	+ 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 2006 to over \$74 million in 2007.

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

FY 2005 Appropriation	\$0
FY 2006 Appropriation	\$16
FY 2007 Budget	\$74
Percent Change From FY 2006	+ 362.5%

Rural Community Development Initiative. Like the Administration’s budgets for the last four years, the FY 2007 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 2006.

Delta Regional Authority. The FY 2007 Administration’s budget proposes \$5.9 million in funding for the Delta Regional Authority (DRA), \$6 million less than FY 2006 funding levels. 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 2006).

Community Facilities Programs. In addition to RHS housing appropriations, the 2007 budget proposal for USDA Rural Development includes other non-housing programs of great

importance to rural communities. Under the 2007 proposed budget, funding for the direct community facility guaranteed loan program would stay at \$297 million and community facility grants would stay at the \$17 million program level appropriated for 2006.

Rural Empowerment Zones and Enterprise Communities. As part of the SACI proposal, the Administration proposes no funding for rural Empowerment Zones (EZs), Enterprise Communities (ECs), Rural Business Enterprise Grant (RBEG), or the Rural Business Opportunity Grant (RBOG) programs.

Rural Utilities Service Programs

Under the Rural Utilities Service, the 2007 budget proposes to decrease water and waste disposal direct loans from \$1 billion in 2006 to \$990 million in 2006. Water/waste grants would drop significantly, from their FY 2006 level of \$455 million to \$346 million in 2007.

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 2007 proposed budget occur with regard to programs under the Office of Community Planning and Development. The HUD budget proposes to consolidate CDBG with three other HUD programs – Rural Housing and Economic Development, Brownfields Redevelopment grants, and Section 108 Loan Guarantees – and cut funding by almost 30 percent from fiscal year 2006 levels.

Table 13.
Community Planning and Development
(dollars in millions)

Program	2005 Appropriation	2006 Appropriation	2007 Budget Request	Percent Change 2006-2007
Community Development Block Grants	\$4,702	\$4,178	\$3,032	-27.4%
<i>Selected CDBG Set-asides</i>				
Youthbuild	\$62	\$49	\$50 ¹	+ 2.0%
Indian CDBG	\$68	\$59	\$57	-3.4%
SHOP	\$25 ²	\$20 ³	\$40	+ 100.0%
Rural Housing & Economic Development	\$24	\$17	\$0	-100%
HOME Investment Partnerships Program	\$1,900	\$1,758	\$1,917	+ 9.0%
<i>HOME Set-aside</i>				
American Dream Downpayment Initiative	\$50	\$25	\$100	+ 300.0%
Housing Counseling	\$42	\$42	\$45	+ 7.1%
Lead Hazard Control	\$167	\$150	\$115	-23.4%
Homeless Assistance Programs	\$1,240	\$1,326	\$1,536	+ 15.8%

Community Development Block Grant. Unlike last year, in the 2007 budget the Administration did not propose to transfer CDBG with other programs to the Commerce Department. However, the HUD budget proposes to consolidate CDBG with three other HUD programs – Rural Housing and Economic Development, Brownfields Redevelopment grants, and

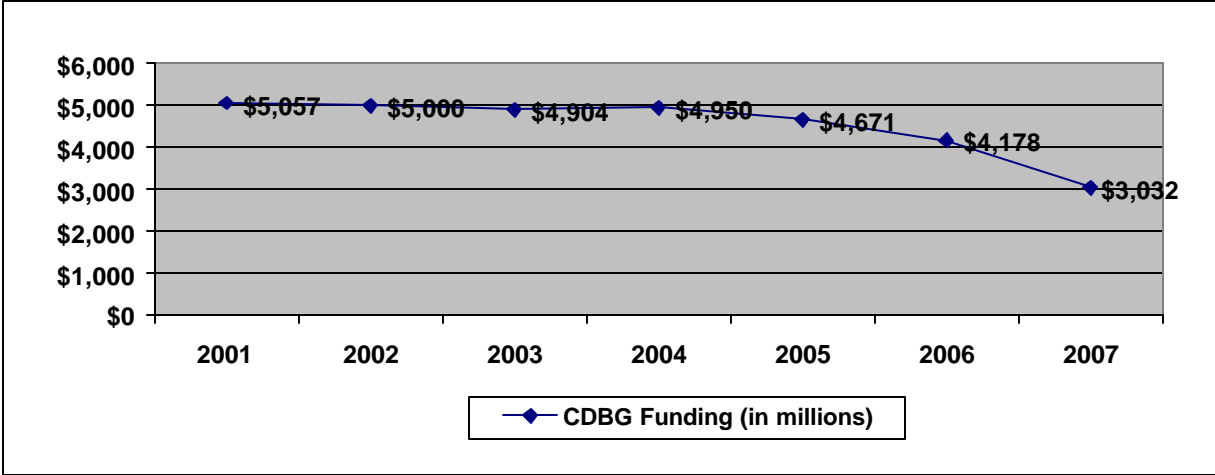
¹ The FY 2007 budget proposes transferring Youthbuild to the Department of Labor.

² In 2005, the SHOP program was funded under the Community Development Block Grant.

³ Funded through a new Self-Help and Assisted Homeownership Opportunity Program instead of CDBG.

Section 108 Loan Guarantees – and cut it almost 30 percent from fiscal year 2006 levels. In addition, 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 “have shown progress in expanding homeownership for their residents” (HUD 2006).

Figure 1. CDBG Funding Levels



Rural communities, specifically, utilize the State CDBG program to build housing and infrastructure and create economic development opportunities. Funds are divided into two categories. Most rural areas apply for CDBG funds from the State CDBG program, administered by state government agencies. (Hawaii is the only state that has chosen not to administer its own program, so HUD administers the State CDBG program there.) 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.

CDBG Set-Aside Programs

- ⊞ **Indian CDBG.** The 2007 proposed budget reduces the ICDBG program to \$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 2007 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.
- ⊞ **Youthbuild.** Local organizations have used the Youthbuild program to both develop affordable housing and provide low-income youth with construction training. The Administration is proposing to reduce funding by \$2 million in 2007, continuing a trend from previous years, and transfer the program to the Department of Labor.

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 2007, a \$20 million increase over

2006. 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.

Table 14
SHOP Funding History
(in millions)

Year	Amount
FY 2002 Appropriation	\$22
FY 2003 Appropriation	\$25
FY 2004 Appropriation	\$27
FY 2005 Appropriation	\$25
FY 2006 Appropriation	\$20
FY 2007 Budget	\$40

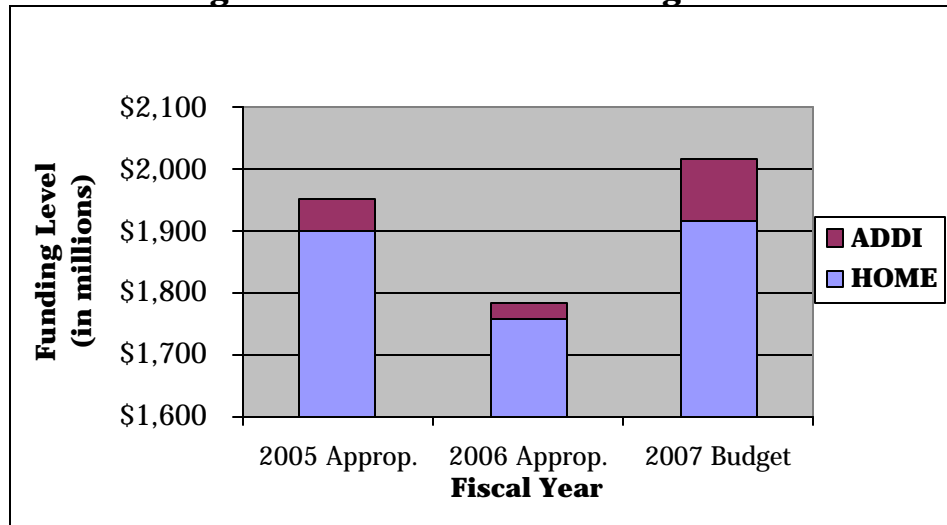
Rural Housing and Economic Development. The Administration has proposed to eliminate the RHED program in FY 2003, 2004, 2005, and 2006, but Congress has funded it every year. The FY 2007 budget proposes that RHED be consolidated into CDBG, along with several other CPD programs. RHED is an important resource for rural affordable housing organizations since it provides scarce federal capacity building and project funding for organizations serving small rural communities. Since 1999, the RHED program has provided approximately \$176 million in grants to 701 rural organizations, with an emphasis on Appalachia, the border Colonias, the Mississippi Delta, farmworkers, and Native American lands.

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 funding increase of \$159 million in 2007.

Of the total \$1.92 billion, \$100 million is proposed for the American Dream Downpayment Assistance Initiative. This HOME set-aside received appropriations of \$50 million in 2005 and \$25 million in FY 2006. The initiative has become a critical part of HUD’s efforts to increase minority homeownership.

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 2007 the Administration has again proposed to separate it from HOME. Funding would be increased from \$42 million in 2006 to \$45 million in 2007.

Figure 2. HOME & ADDI Funding Levels



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

- △ to provide \$1.54 billion in Homeless Assistance Grants;
- △ to provide \$200 million for the Samaritan Initiative, a new program that would also be part of a broader interagency initiative intended to provide housing and services for people who are chronically homeless; and
- △ to create a new Faith Based Prisoner Reentry Initiative, with funding of \$25 million.

Advocates such as the National Alliance to End Homelessness commend HUD for increasing homeless assistance grants, which will increase the number of permanent housing units for homeless individuals and families by 12,000 units in 2007 (NAEH 2006).

Public and Indian Housing

Table 15
Public and Indian Housing
(dollars in millions)

Program	2005 Appropriation	2006 Appropriation	2007 Budget Request	Percent Change 2006-2007
Sec. 8 Project Based Rental Assistance	\$5,298	\$5,037	\$5,676	+ 12.7%
Sec. 8 Tenant Based Rental Assistance	\$10,600	\$15,808	\$15,920	+ 0.7%
Public Hsg. Operating Fund	\$2,438	\$3,564	\$3,564	0%
Public Hsg. Capital Fund	\$2,579	\$2,439	\$2,178	-10.7%
Revit. of Severely Distressed Public Hsg. (HOPE VI)	\$149	\$99	\$0	-100%
Nat. Amer. Hsg. Block Grants	\$622	\$624	\$626	+ 0.3%
Nat. Hawaiian Block Grants	\$9	\$9	\$6	-33.3%
Indian Housing Loan Guar. Fund	\$5	\$4	\$6	+ 50.0%
Nat. Hawaiian Loan Guar.	\$1	\$1	\$1	0%

Section 8. Similar to its budget proposal last year, HUD proposes to replace Housing Choice Vouchers with a new “Flexible Voucher” program. Unlike last year’s version, this would be a block grant to public housing authorities rather than to states, and would be based on dollars rather than housing units.

Income targeting rules, which restrict 75 percent of new vouchers to households with incomes below 30 percent of area median income, would be dropped. If the new proposals were adopted, all new vouchers could go to households with incomes up to 80 percent of median. Also scrapped would be the rule that limits tenant rent payments to 30 percent of their incomes. These changes will drastically affect the program and slant it towards higher-income households.

Public Housing. HUD estimates that in 2005 there were approximately 1.2 million occupied public housing units operated by 3,100 public housing authorities (PHAs). The budget would maintain FY 2006 funding levels of \$3,564 billion for the Public Housing Operating Fund, which covers maintenance, utilities, protective services, and other services. However, the budget would reduce the Public Housing Capital Fund, which gives grants to PHAs for major repairs and modernization, by \$261 million.

As in the 2006 proposal, the FY 2007 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, and billions of HOPE VI dollars are still in the pipeline.

Native American Housing. 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 \$626 million in FY 2007, an increase of \$4 million from 2005. The National American Indian Housing Council estimates that annual funding of \$748 million would be required to meet current needs (NAIHC 2006).

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 2007 budget proposes a \$1 million reduction in funding for the FHAP; FHIP would remain the same. The Administration expects fair housing activities to play a role in promoting minority homeownership.

Special Needs Populations

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

Program	2005 Appropriation	2006 Appropriation	2007 Budget Request	Percent Change 2006-2007
Elderly Hsg. (Sec. 202)	\$741	\$735	\$545	-25.9%
Hsg. for Persons with Disabilities (Sec. 811)	\$238	\$237	\$119	-49.8%
HOPWA	\$282	\$286	\$300	+ 4.9%
Faith Based Prisoner Re-entry Initiative	\$0	\$0	\$25	

Section 202. HUD proposes to provide \$545 million for the Section 202 program, which produces rental units for elderly people. This is a \$196 million decrease from FY 2005. 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 \$59 million.

Section 811. Funding for the Section 811 program, which assists people with disabilities, would be cut in half. The Administration is requesting \$119 million for 2007. Up to 25 percent of the program's funds can be used to provide Section 8-type vouchers, and \$75 million of the 2007 funds would be used to renew those vouchers.

Housing for Persons with AIDS. The FY 2007 budget proposes to increase funding for the Housing Opportunities for Persons with AIDS (HOPWA) program to \$300 million, a 6.0 percent increase since FY 2005. Jurisdictions are eligible for this funding if federal data indicate a certain level of need in their areas.

Housing for Returning Ex-offenders. The President proposed in his 2004 State of the Union address to help individuals leaving prison make a successful transition to community life and long-term employment (HUD 2006, 7). HUD's FY 2007 budget request for Homeless Assistance Grants includes \$24.8 million for a prisoner reentry program that would be transferred to the Department of Labor (HUD 2006, 7).

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

Similar to those of the last several years, the Administration’s budget again proposes no new funding for the Treasury Department’s Community Development Financial Institutions (CDFI) Fund. The level proposed for 2007 is \$8 million, a significant reduction from FY 2006’s \$55 million appropriation. This \$8 million would be used to administer its existing portfolio and the New Markets Tax Credit program (NADO 2006). The CDFI program is one of the 16 programs slated for consolidation and transfer under the Administration’s Strengthening America’s Communities Initiative.

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.

Table 17
CDFI Fund
(dollars in millions)

FY 2005 Appropriation	\$55
FY 2006 Appropriation	\$55
FY 2007 Budget	\$8
Percent Change From FY 2006	-85.5%

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The Administration's proposed fiscal year 2007 budget is similar to those of the last few years, with an emphasis on homeownership programs over rental housing. Specifically, the budget for USDA's Rural Housing Service proposes drastic cuts for rental housing, including no funding for the Section 515 rental housing loan program. The U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) program is proposed for cuts of almost 30 percent from the previous fiscal year, while the Rural Housing and Economic Development program is proposed to be consolidated with two other programs into CDBG.