



January 12, 2012

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The State House
Boston, MA 02133

RE: Impact of FY2012 HUD Budget Cuts on Massachusetts

Dear Secretary Gonzalez, Chairman Brewer, and Chairman Dempsey,

I am writing to offer further detail on the impact of federal budget cuts on the Commonwealth's ability to create and preserve affordable housing for Massachusetts residents.

In November, Congress enacted and the President approved the federal Housing and Urban Development budget for FY2012 and made a number of funding cuts that will make it more difficult for Massachusetts to develop and preserve affordable housing, maintain its federal public housing stock, and provide homelessness assistance. These include:

- Deep funding cuts to HOME (40%) and CDBG block grants programs (15%);
- Cuts to operating (14%) and capital funding (8%) for federal public housing;
- Insufficient renewal funding for the Section 8 housing choice voucher program, which MAY mean some housing authorities will not have enough funding to support all authorized vouchers, plus an 11% cut in the fees paid to DHCD and housing authorities to operate the program;
- Level funding for Homelessness Assistance Grants;
- No funding for new Section 202 elderly affordable housing developments;
- No funding for the Neighborhood Stabilization Program;
- No funding for the Sustainable Communities Grant;

In addition, the December appropriations bill provides a 28% cut in LIHEAP fuel assistance. The following pages detail the likely impacts on Massachusetts in more detail.

HOME Investment Partnerships Program (HOME)

Cut to cities and towns: \$17.5 million (41% cut)

Cut to DHCD: \$6 million (46% cut)

HOME provides annual formula block grants to states, larger cities and multi-community consortia to support affordable housing. Currently, DHCD and 100 cities and towns receive formula allocations. The grant amount is based on HUD formula that measures relative local housing need. While the FY2012 appropriation for HOME is 38% below the FY2011 level, the State (DHCD) and many local grantees will receive deeper cuts because of the use of updated Census data in the FY2012 formula. Based on HUD estimates released on December 16, the HOME allocation to DHCD will fall by \$6 million (from \$13.3M to \$7.2M), down 46%, and the combined State and local allocation will fall by \$17.5 million or 41% (from \$42.5M to \$25M). The FY2012 cuts come on top of 10-12% cuts in FY2011.

DHCD uses HOME funds primarily for rental housing production and as it stated in its FY2011 Annual Action Plan, views HOME as *“the workhorse in the State’s stable of housing programs. Along with the low income housing tax credit, with which it is often paired, HOME is a major tool for preserving and expanding the state’s affordable rental inventory...In the past five years, HOME has funded between 300 and 400 units annually.”*

DHCD’s HOME allocation fills gaps in financing for both for Low Income Housing Tax Credit developments and other developments. Cities and towns use their HOME funds this way as well. often in tandem with DHCD HOME funds. In FY2011, DHCD projected that it would use HOME funds to help fund the production and preservation of 290 affordable rental units; it now expects to fund half as many in FY2012. We do not have an estimate for the impact on local production, but DHCD reports that some cities are struggling to come up with their planned match for some DHCD-assisted projects.

	FY2011	FY2012 Estimate	Decrease	%
Total MA	42,472,792	25,006,254	(17,466,538)	-41.1%
DHCD	13,266,893	7,168,801	(6,098,092)	-46.0%
Cities and Towns	29,205,899	17,837,453	(11,368,446)	-38.9%
Boston	7,530,644	4,053,275	(3,477,369)	-46.2%
North Suburban (Malden lead)*	2,502,284	1,364,223	(1,138,061)	-45.5%
Brockton	738,433	409,258	(329,175)	-44.6%
Somerville	850,413	476,441	(373,972)	-44.0%
Barnstable County*	664,528	375,808	(288,720)	-43.4%
Worcester	1,762,033	1,029,049	(732,984)	-41.6%
Lawrence	984,775	576,301	(408,474)	-41.5%
West-Metro (Newton lead)*	2,044,347	1,218,664	(825,683)	-40.4%
Lowell	1,049,022	630,939	(418,083)	-39.9%
Lynn	959,661	596,298	(363,363)	-37.9%
Fitchburg-Leominster (Fitchburg lead)*	596,422	383,636	(212,786)	-35.7%
North Shore (Peabody lead)*	2,091,371	1,348,565	(742,806)	-35.5%
New Bedford	1,172,388	758,028	(414,360)	-35.3%
Greater Attleboro/Taunton (Taunton lead)*	824,072	534,215	(289,857)	-35.2%
Cambridge	1,020,054	695,356	(324,698)	-31.8%
Fall River	1,096,825	751,345	(345,480)	-31.5%
Springfield	1,591,660	1,183,998	(407,662)	-25.6%
South Shore (Quincy lead)*	872,799	657,666	(215,133)	-24.6%
Holyoke/Chicopee/Westfield (Holyoke lead)*	854,168	794,388	(59,780)	-7.0%

*Lead City for a consortium

The Community Development Block Grant (CDBG)

Cut to Cities and Towns: \$9 million

Cut to DHCD: \$2.7 million

The Community Development Block Grant (CDBG) program provides annual formula block grants for activities that support community development, including economic development, housing rehabilitation, public services, social services and infrastructure improvements. It is also a critical funding resource for planning staff in entitlement communities.

HUD distributes the funds directly to larger, older cities and towns (“entitlement communities”) and also provides annual grants to States for redistribution to non-entitlement communities. Massachusetts currently has 38 entitlement communities. The grant amount is based on HUD formula that measures relative local housing need. While the FY2012 appropriation for CDBG grants is 12% less than in FY2011, Massachusetts as a whole will see a 9% cut because of the use of updated Census data in the FY2012 formula. Based on HUD estimates released on December 16, the CDBG allocation to Massachusetts will fall by \$9 million (from \$98M to \$89M). The FY2012 cuts come on top of 16-17% cuts in FY2011.

DHCD distributes its funds through a competitive application process that allows non-entitlement cities and towns to apply for funding for CDBG-eligible activities of their choosing; it also reserves some of its funding for “mini-entitlement” block grants to larger, needier non-entitlement cities and town. The impact on affordable housing is hard to predict, but given the pattern of recent grants, the FY2012 cut is likely to reduce the number of home rehabilitation loans DHCD can fund (178 units were funded in 2011), as well as reduce the number of grants awards for public housing improvements, code enforcement, affordable housing planning studies and gap funding for affordable housing development.

The impact on entitlement communities is harder to predict as the level of cuts individual cities and towns will receive ranges from 1% to 24%.

Section 8 Housing Choice Voucher Program

Risk of Funding Shortfall Threatening Voucher Renewals

Cut to local housing authorities: At least \$3.8 million (exact amount TBD)

Cut to DHCD and regional administering agencies: At least \$1.2 million (exact amount TBD)

The Section 8 Housing Choice Voucher (HCV) program helps elderly, disabled and family households in Massachusetts afford their rent by covering the difference between what they can afford at 30% of income and the actual rent (up to a HUD-approved ceiling). Approximately 57,000 vouchers allocated to Massachusetts are administered by local housing authorities (LHA) and approximately 19,000 by DHCD through contracts with regional nonprofit agencies. DHCD and the LHAs receive per-unit administrative fees from HUD to cover the cost of administering the vouchers.

The FY2012 budget:

- provides no funding for new vouchers, except for veterans
- cuts administrative fee funding by 7%, resulting in a 25% per-unit fee reduction.
- provides slightly less than is needed to renew all currently authorized vouchers nationwide - about 0.5% to 1% *less* according to a recent Center on Budget Policy and Priorities (CBPP) analysis
- changes the way renewal funding needs will be calculated, and
- assumes HUD will be able to take back \$650 million in excess “net restricted assets” (NRA) from local agencies to help fund renewal costs. (NRA consists of budget authority provided to housing agencies each year to cover voucher rent costs that went unused in the year provided but can be used to cover future voucher rent costs).

At this time, it not clear whether the underfunding of the renewal account will require Massachusetts housing agencies to reduce the number of vouchers in use. Renewal costs depend on numerous local factors, including trends in tenant incomes and rents. HUD does not expect to know until at least mid-February whether it will need to make pro-rata cuts to renewal contracts, which will depend on total renewal costs nationally and whether HUD will be able to obtain the full \$650 million in excess NRA funds Congress counted on to set the FY2012 renewal appropriation.

The cut in administrative fees, however, will clearly reduce the amount administering agencies have to pay for staff necessary to administer the program. While HUD has not yet announced the new per-unit fees for 2012, it advised agencies in December that agencies will receive only 75% of the amount they would otherwise be eligible to receive. The exact dollar impact cannot be estimated at this time, but will be at least 6.7% below the FY2011 fee payments. This will result in a loss of at least \$5 million across the state, including a loss of \$1.2 million for DHCD's voucher program.

Neighborhood Stabilization Program **Not funded**

The Housing and Economic Recovery Act of 2008, American Recovery and Reinvestment Act of 2009 and Dodd-Frank Act of 2010 funded individual phases of the Neighborhood Stabilization Program to provide funding to DHCD, individual communities and developers to 1) acquire and improve foreclosed and abandoned properties, 2) conduct property inspection as part of code enforcement, 3) make neighborhood-scale infrastructure improvements, and 4) conduct limited demolition. Over 1,200 units of housing have been acquired and rehabilitated through the three phases of the program in the most distressed markets in the Commonwealth. These investments have created stability and prevented property value depression and other challenges related to abandoned and distressed properties. The program was not funded and Congress has not shown any appetite to fund neighborhood stabilization activities through the White House's American Jobs Act.

HUD Homelessness Assistance Grants **Level Funded in 2012**

The HUD account for homelessness assistance grants has been level funded for FY2012. The account funds two subprograms. Based on FY2011 allocations, Massachusetts is likely to have a small increase in formula funding for homelessness prevention (but a tiny amount relative to the \$44 million in ARRA funds - including \$18 million to DHCD - which Massachusetts received in 2009 for this purpose). It can expect little or no gain in funding for its other HUD-funded homeless programs.

- The Emergency Solutions Grant (ESG) provides formula funding to larger cities and to the State (for redistribution to communities that don't receive formula funds) for shelter activities and prevention services. Massachusetts (DHCD and cities) received \$7.45 million in ESG funds in FY2011, up almost \$2.7 million from the \$4.77 million they received each of the prior four years. In addition to a increase, the ways ESG funding can be used are changing as a result of new regulations that take effect in January, 2012. The new regulation makes rapid re-housing (rental assistance and relocation and stabilization services) an eligible, and in fact, mandatory, use of funds and caps the amount that can be used for street outreach and for shelter operations. *The federal HEARTH Act sets benchmarks for reforming homelessness assistance that will need to be adhered to or the Commonwealth will risk losing out on future Homelessness assistance grants.*
- The Continuum of Care (CoC) program provides annual renewal grants for existing supportive service and rental assistance programs and competitive grants for new permanent housing. Massachusetts received \$60 million in CoC grant awards in FY2011, up slightly from recent years.

Section 202 Housing for the Elderly

Statewide Cut: \$13.4 million (about 90 new units for the elderly)

Funding for new affordable housing for the elderly was eliminated in FY2012. The Section 202 program provides grants to nonprofit sponsors to develop supportive housing exclusively for very low income (50% of area median income) elderly households (62+). It provides a grant for limited development costs, as well as project-based rental assistance for 100% of the units. In the past 5 years, Massachusetts has received an average of \$13.4 million/year in construction grants to develop an average of 90 new units a year (3 projects). It typically takes 2-3 years to complete a development after the 202 award is announced, meaning the impact of this loss (90 units of elderly housing not built and associated construction and service employment) will be felt in about 2014.

Section 811 Housing for Persons with Disabilities

Impact to be Determined

Congress has changed the way funds can be used under the Section 811 program in FY2012. It eliminated funding for new construction projects in FY2012, choosing to fund rental assistance only instead under a new program model authorized in 2011 legislation. In prior years, the program funded the development of housing for non-elderly persons with disabilities through a capital grant and a contract for project-based rental assistance for 100% of the units. Funding has been very limited, with capital grants awarded to Massachusetts projects supporting an average of 13 new units a year over the past five years. The FY2012 budget limits allowed funding uses to project-based rental assistance in integrated housing (housing where no more than 25% of units are reserved for disabled). HUD will provide allocations of project-based rental vouchers to state housing finance agencies who in turn will award them to for- or non-profit developers. While regulations have yet to be issued, experts expect it to be used to support set-asides of units in new tax-credit and HOME-funded developments.

Sustainable Communities Regional Planning Grants

Eliminated

The Sustainable Communities Regional Planning Grant Program supports metropolitan and multijurisdictional planning efforts that integrate housing, land use, economic and workforce development, transportation, and infrastructure investments. HUD made several FY'10 awards to Massachusetts regions, including \$4,000,000 to the Metropolitan Area Planning Council, \$425,000 to the Franklin Regional Council of Governments, \$590,700 to Berkshire Regional Planning Commission and a \$4.2 million grant for the Pioneer Valley Planning Commission to work in collaboration with interstate partners extending south to Hartford. Additional regions will not be able to utilize these funds to further coordinated strategies to promote economic development and smart growth.

I hope this information is helpful as you craft the Commonwealth's FY'13 budget, and capital spending and tax credit initiatives for housing and community development. Please let me know if you have any questions. Thank you.

Sincerely,



Sean T. Caron

Director of Public Policy

CC: Speaker Robert DeLeo, Senate President Therese Murray, Minority Leader Bruce Tarr, Minority Leader Brad Jones, Rep. Kevin Honan, Sen. James Eldridge, Sen. Steven Baddour, Sen. Jennifer Flanagan, Rep. Stephen Kulik, Rep. Martha Walz, Secretary Greg Bialecki

Addendum

FY2011 and FY2012 HUD Appropriations Budget Chart

	FY2011 (millions)	FY2012 (millions)	\$ Change	% Change
Section 8				
<i>Tenant Based Rental Assistance</i>	18,363	18,914	551.5	3.0%
Tenant Based Rental Assistance (Rescission)	-	(650)	(650)	
Housing Certificate Fund (Rescission)	-	(200)	(200)	
<i>Project Based Rental Assistance</i>	9,257	9,340	82.2	0.9%
Public Housing				
Capital Fund formula grants	1,906	1,790	(116.2)	-6.1%
Operating Fund	4,617	3,962	(654.9)	-14.2%
HOPE VI	35	-	(34.9)	-100.0%
Choice Neighborhoods Initiative	65	120	55.1	85.0%
Community Development				
HOME Block Grants	1,607	1,000	(606.8)	-37.8%
CDBG Formula Grants	3,336	2,948	(388.2)	-11.6%
<i>Sustainable Communities</i>	100	-	(99.8)	-100%
Homeless Assistance Grants	1,901	1,901	-	-
HOPWA	334	332	(2.3)	-0.7%
Housing Counseling Assistance	0	45	45	
Housing for the Elderly (202)	399	375	(24.6)	-6.2%
Housing for Persons w/Disabilities (811)	150	165	15.3	10.2%
Lead Paint Hazard Reduction/Healthy Homes	120	120	0.2	0.2%
Total HUD Budgetary Resources*	41,119	37,434	(3,686)	-9.0%