

# Federal Housing Policy

## Budget Trends for FY 2018

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MFA Act Legislative Oversight Committee  
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# Why Care about Policy?

***MFA would not have been created and would not exist today without federal and state policy.***

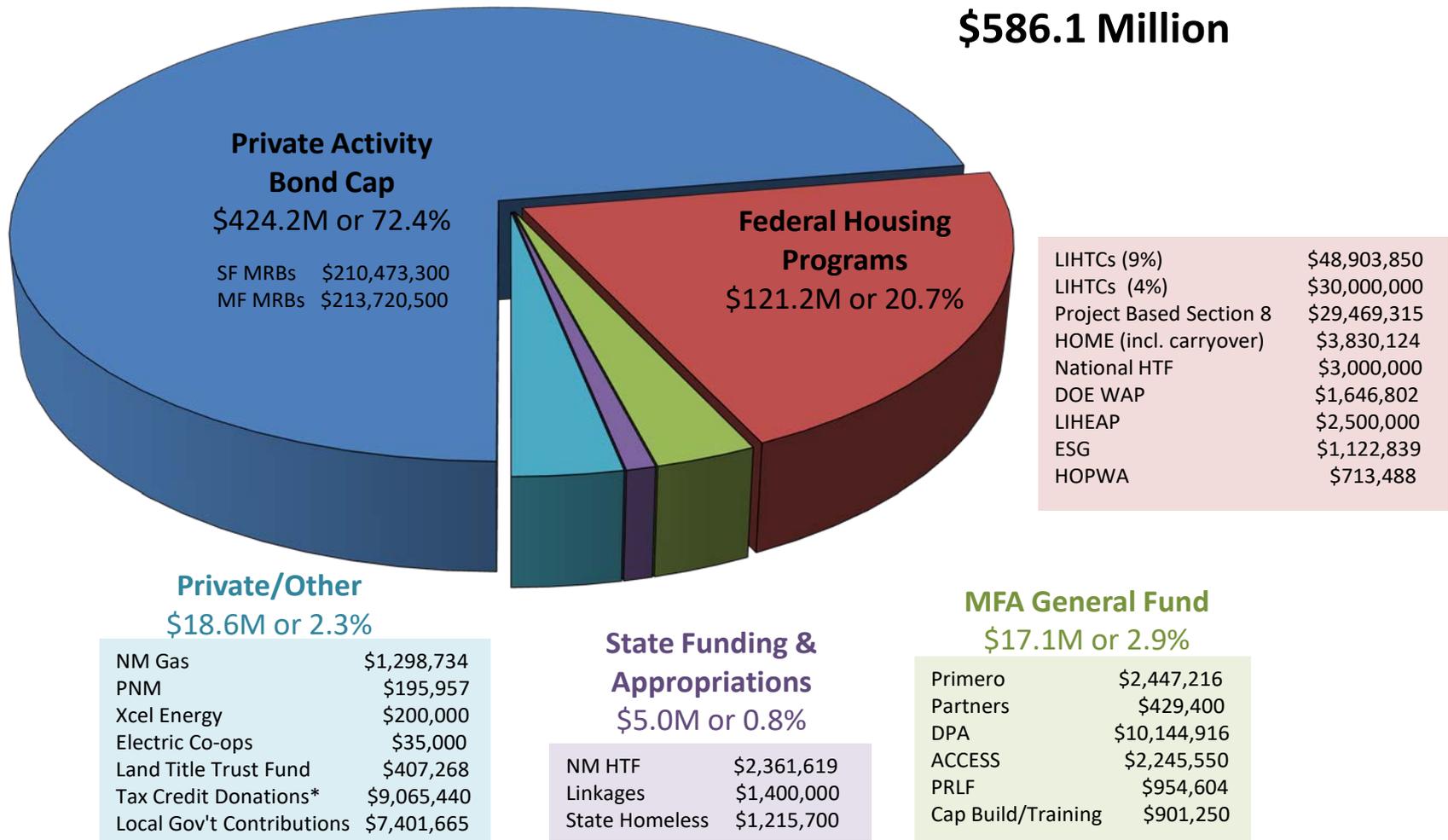
Policy allows MFA to exist as a unique, quasi-governmental agency that works in the public interest (like a nonprofit) but generates its own revenue for operations (like a business).

<b>Federal</b>	<b>State</b>
<ul style="list-style-type: none"><li>• Housing Bonds (PAB)</li></ul>	<ul style="list-style-type: none"><li>• MFA Act (enabling legislation)</li></ul>
<ul style="list-style-type: none"><li>• Housing Credit (LIHTC)</li><li>• Federal Affordable Housing Programs &amp; Funding</li></ul>	<ul style="list-style-type: none"><li>• New Mexico Housing Trust Fund Act</li><li>• Land Title Trust Fund Act</li><li>• Affordable Housing Act</li><li>• Affordable Housing Tax Credit Act</li><li>• Regional Housing Law</li></ul>

# How does this affect MFA?

About 20% of MFA's annual resources are federal

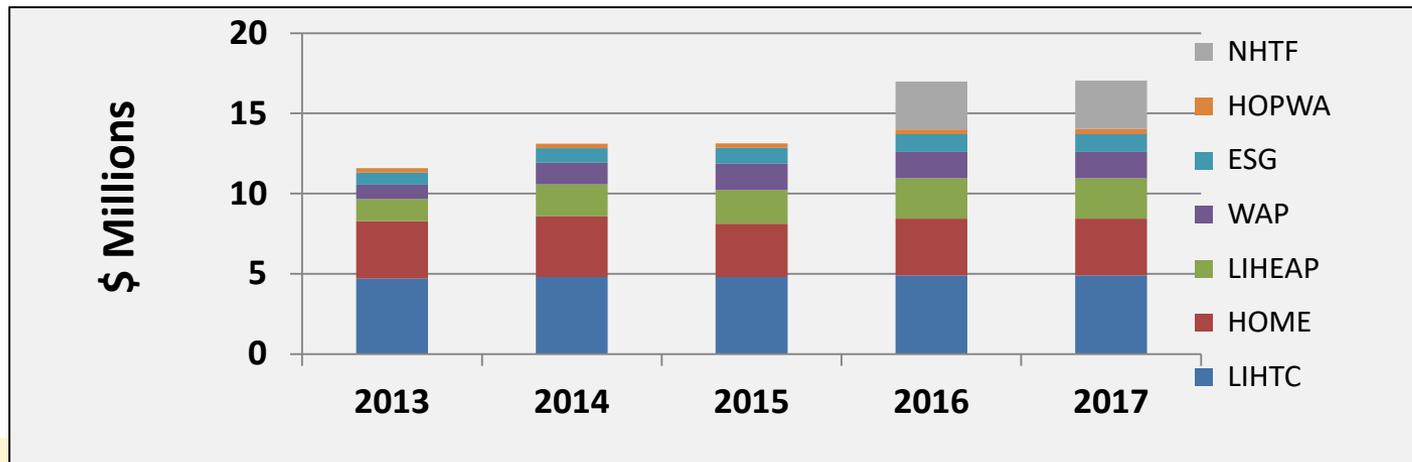
## MFA Estimated Funding Sources, 2017: \$586.1 Million



\*The New Mexico Affordable Housing Tax Credit incentivizes up to \$9 million in private donations for affordable housing.

# Formula Grant Allocations to MFA

Federal Program	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
National Housing Trust Fund (NHTF)	-	-	-	3,000,000	3,000,000
Low-Income Housing Tax Credits (LIHTC)	4,692,461	4,796,160	4,796,737	4,901,094	4,890,385
HOME Investment Partnerships (HOME)	3,597,945	3,781,116	3,332,253	3,547,392	3,554,403
Low Income Housing Energy Assistance (LIHEAP)	1,368,000	2,000,000	2,100,000	2,500,000	2,500,000
Weatherization Assistance Program (WAP)	889,637	1,352,532	1,623,996	1,646,802	1,646,802
Emergency Solutions Grant (ESG)	757,993	897,007	989,566	1,105,350	1,112,839
Housing Opportunities for Persons w/AIDS (HOPWA)	273,934	288,945	285,515	290,238	330,717



# Recent Concern about Budget Cuts

Politics

## Trump administration considers \$6 billion cut to HUD budget



President Trump promised to slash government spending and taxes, but also made costly promises for military and infrastructure funding. As preliminary budget proposals leak out, some government agencies are very, very worried. (Jenny Starrs, Danielle Kunitz/The Washington Post)

**March 16, 2017:** President Trump's FY 2018 White House budget blueprint proposes \$6 billion in cuts at HUD.

- ✓ Eliminates CDBG, HOME, SHOP, Choice Neighborhoods, Section 4 capacity building
- ✓ Cuts public housing operational and capital funds, community development and planning grants, Section 8 and VASH vouchers, Sections 202 and 811, NAHASDA
- ✓ DOE budget eliminates WAP and LIHEAP

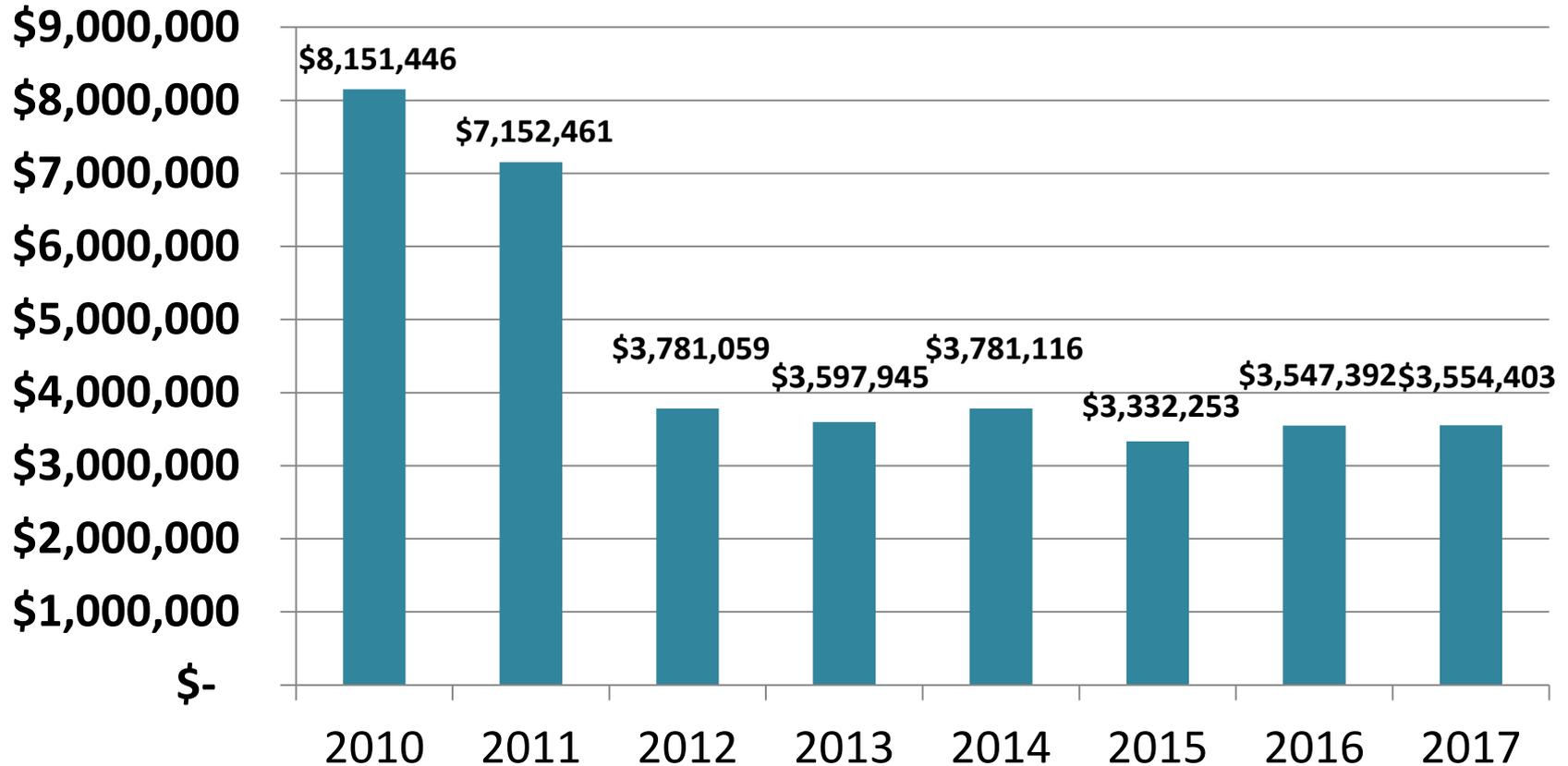
# How might this affect MFA?

## Breakdown of Federal Funds

Federal Program	Agency	At Risk?	\$ Impact	Program Impact
Home Investment Partnerships Program (HOME)	HUD	YES	\$3.5 million	Rehab, gap financing
Emergency Solutions Grant (ESG)	HUD	NO	\$1.1 million	Homeless
Housing Opportunities for Persons with AIDS (HOPWA)	HUD	NO	\$330,000	HOPWA
Weatherization Assistance Program (WAP)	DOE	YES	\$1.6 million	NM EnergySmart
Low-Income Home Energy Assistance Program (LIHEAP)	DOE	YES	\$2.5 million	NM EnergySmart
Low-Income Housing Tax Credits (LIHTC)	Treasury	Potential impact from tax reform	\$49 million (additional for bond-financed)	Housing development

# HOME Funding Cut 56% Since 2010

*Used for MFA rehab, gap financing*



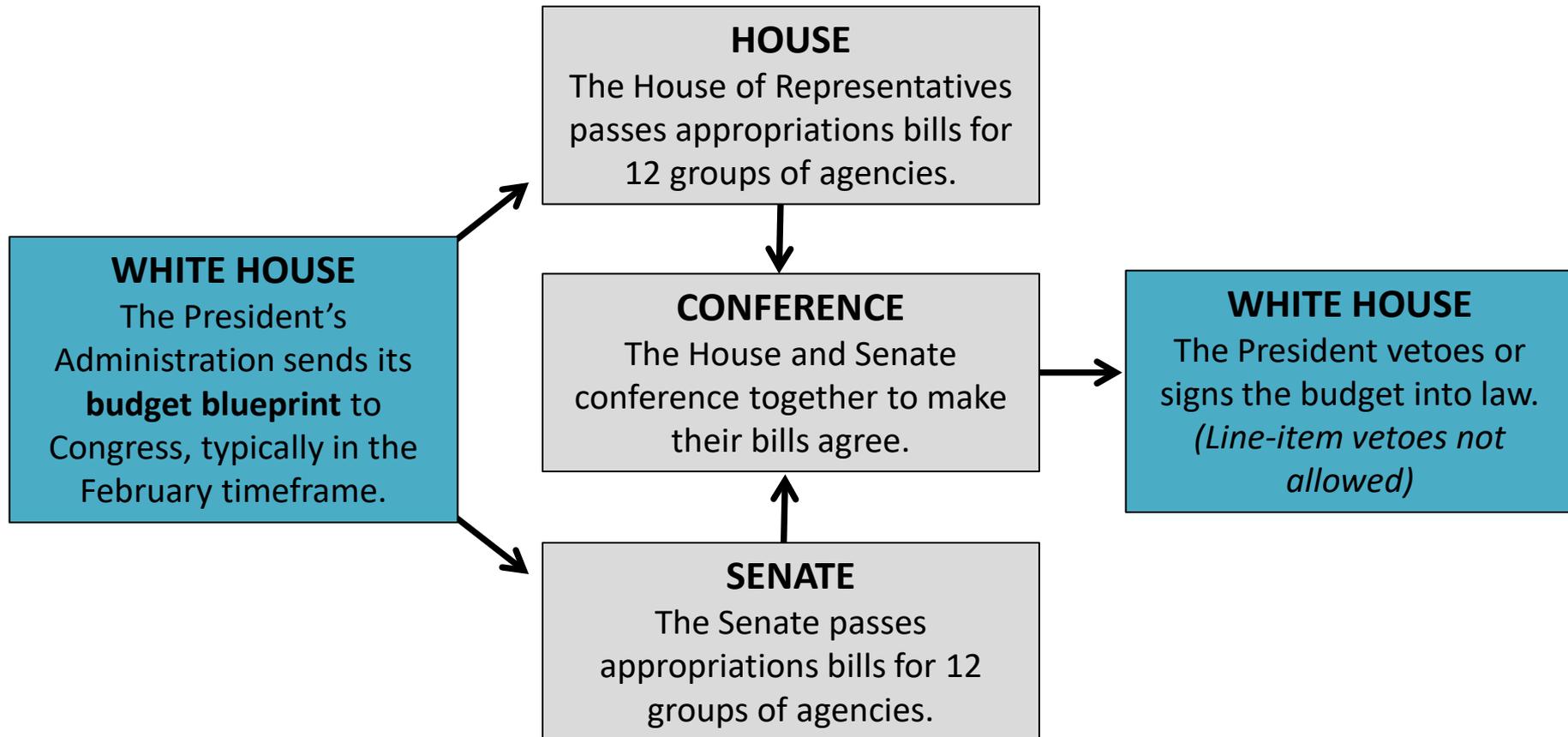
# *What does the “budget blueprint” mean?*

**The President’s budget blueprint is a *proposal* that outlines the Administration’s priorities.**

- Congress starts from scratch on its own appropriations bills (developed through 12 subcommittees in each house).
- Congress may or may not adopt elements of the President’s budget blueprint.
- It is unclear if Congress will adopt cuts as deep as recommended by the President.

# The Budget (Appropriations) Process

## Regular Order



In recent years, Congress has not followed “regular order.” Instead, it has passed “continuing resolutions” or “**CRs**” that essentially flat-fund programs at their previous level or with small modifications.

# ***What should we expect for FY 2018?***

Congress could return to **regular order** and pass a budget through the traditional process.

- This could be complicated by the Budget Control Act and/or the need to offset funding to pay for administration priorities (increased defense and the border wall).

**OR**

Congress could pass another **CR** to keep the government running.

- Short-term continuing resolution
- Long-term continuing resolution
- Again, complicated by the Budget Control Act

**OR**

The **government shuts down** on October 1.

# Budget Control Act

## *Remember “sequestration?”*

The Budget Control Act (BCA) of 2011 set annual caps on federal spending. These caps have been problematic because they tightly constrain funding for domestic programs such as affordable housing.

- The Bipartisan Budget Act of 2015 (H.R. 1314) provided a reprieve to the BCA.
  - ✓ Set new topline spending numbers for defense and domestic programs for FY 2016 and FY 2017.
- The Bipartisan Budget Act was negotiated as part of Paul Ryan’s election as Speaker of the House, but not all Republicans were on board with lifting the BCA caps.
  - ✓ **The BCA caps will return in FY 2018 without further action.**

# Beyond the Budget

## Other Policy Issues that Affect MFA

### Comprehensive Tax Reform

- Current tax code includes provisions that make possible private activity bonds (PABs), low-income housing tax credits (LIHTCs) and the mortgage interest deduction (MID).

### Low-Income Housing Tax Credits

- The rates in the tax code affect the value of LIHTC investments. Reducing tax rates will decrease investment.
- Stand-alone legislation to improve and expand the LIHTC program.

### Infrastructure Bill

- President Trump has promised a \$1 trillion infrastructure plan to be released as early as May. Currently few details on the content or the actual timeframe.

### Financial Reform (i.e. changes to Dodd-Frank)

- Financial CHOICE Act of 2017
- Will likely occur via “one-offs” vs. one large bill

### Government-Sponsored Entity (GSE) Reform for Fannie Mae & Freddie Mac

- Stated to be an administration priority, but no timeframe or details have been disclosed
- Mortgage Bankers Association (MBA) released a white paper on its recommendations
- Hearings began in Senate subcommittee in late June. For more information, see: <http://www.enterprisecommunity.org/blog/2017/06/senate-banking-committee-considers-housing-finance-reform>

# Comprehensive Tax Reform

## **Tax reform bill likely due to Republican majority**

- Rumored to be the next big issue tackled by Congress after repeal and replace of the Affordable Care Act

## **Border Adjustment Tax could be major sticking point**

- Controversial proposal by Rep. Paul Ryan to switch the tax burden to where a good is consumed rather than where it is made
- Needed to raise revenue and keep the tax reform bill revenue-neutral

## **Potential impact on Housing Bonds and LIHTCs**

- Strong bipartisan support for retaining LIHTCs
  - ✓ Congressional staff has reached out to Novogradac and the National Council of State Housing Agencies (NCSHA) about ways to mitigate impacts on the LIHTC program from reduced tax rates
- There has not been explicit support for retaining tax-exempt bonds (including housing bonds)
  - ✓ Tax exempt bonds were proposed for elimination in previous tax reform draft (2014)

# Positive Developments for Low-Income Housing Tax Credits

## Affordable Housing Credit Improvement Act (S. 548)

- Introduced by Senators Cantwell (D-WA) and Hatch (R-UT) in 2016 and 2017
- Expands the LIHTC program by 50% over 5 years makes numerous fixes to the program

## Affordable Housing Credit Improvement Act (H.R. 1661)

- House companion bill introduced by Rep. Tiberi (R-OH)
- Contains only the fixes to the program with no expansion

- ✓ Signals bipartisan support for the LIHTC program (a public-private partnership)
- ✓ Lays the groundwork for LIHTCs to be retained in comprehensive tax reform
- ✓ Discussions underway on how to protect the value of investments made through LIHTCs if the effective tax rate is changed in comprehensive tax reform

# Infrastructure Plan

## Rebuilding America

### President Trump has promised a \$1 trillion infrastructure plan

- Focus on “public private partnerships” (PPPs)
- Direct federal spending could be far less (\$160-\$300B) with the rest coming from tax breaks, PPPs and investor incentives
- Public statements made by Secretary Ben Carson that housing will be included in the infrastructure bill
  - ✓ HUD has requested information from NCSHA about unmet demand for LIHTC projects; suggestion of possible grant funding.



### Potential issues

- How is it paid for? Tax reform (i.e. border adjustment tax) is one possibility.
- Democrats suspicious of tax breaks and regulatory changes that would be proposed
- Fiscally conservative Republicans skeptical of increased deficits

# Financial Regulatory Reform

## Financial CHOICE Act of 2017 (H.R. 10) as replacement for Dodd-Frank

- Comprehensive financial reform legislation from Rep. Jeb Hensarling (R-TX), Chair of the House Financial Services Committee
- Hensarling introduced first version of the Financial CHOICE Act in 2016
- Severely restricts CFPB powers
- Makes directors of CFPB and FHFA removable at will by the President (currently they can only be removed for cause)
- Allows financial firms to exempt themselves from certain regulations if they can meet minimum capital standards
- Not expected to have enough support to pass the Senate but is symbolic in nature, articulating Hensarling's view of financial regulation.

## Other Efforts

- Senator Crapo (R-ID), Chair of the Senate Banking, Housing and Urban Affairs Committee and the House Financial Services Committee are expected to propose “one-off” items that can get through the Senate, particularly changes to regulations on small banks.
- Action expected later this year

# What Congress has Accomplished

## Bipartisan Affordable Housing Policy

- Fixed the floating 9% housing tax credit rate in the FY 2016 omnibus spending bill
- Funding for HOME stable in FY 2016 and 2017
- Housing tax credit legislation introduced in FY 2016 and 2017
- **Housing Opportunity through Modernization Act** passed both houses unanimously in FY 2016

### H.R. 3700: “HOTMA”

- Expected to save the government \$311 million over five years
- Status: Passed the House (Feb. 2, 2016) and the Senate (July 14, 2016) unanimously, signed by President Obama (July 29, 2016)
- Supported by the National Council of State Housing Agencies (NCSHA) and numerous national organizations

### Relevant Issues

Simplifies and streamlines rental assistance and single family programs:

- Greater flexibility for PHAs to transfer between operating and capital funds
- Option for PHAs to charge fair market rent or terminate assistance for above moderate-income households
- Makes it easier to insure condo mortgages through FHA
- Directs USDA to allow lenders to directly endorse Section 502 guaranteed loans