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U.S. Municipal Housing

Small Increase for HUD Public Housing Capital Fund

Tom Kozlik
Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

The U.S. House Approved a $1.4 Trillion Spending Package for Fiscal 2020

The U.S. House of Representatives passed legislation totaling about $1.4 trillion on Tuesday that will fund the federal government in fiscal 2020 and should avoid a federal government shutdown.[1] The Senate is also expected to approve the bills, and it is anticipated the President will sign the funding guidelines into law.[2]

Includes a Small Increase for the HUD Public Housing Capital Fund

The Housing and Urban Development's (HUD) Public Housing Capital Fund is set to receive a $95 million increase, which brings the fund's total line item allocation up to $2.87 billion for the year.[3] This week's result is in contrast to the Trump Administration's suggested spending plan unveiled in the spring. In that proposed budget, the White House recommended eliminating contributions to the Public Housing Capital Fund altogether.[4]

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What is the HUD Public Housing Capital Fund?

Money in the capital fund is distributed per a formula to local housing authorities for the redesign, reconstruction, modernization or maintenance needs of public housing nationwide. Some of the local housing authorities sold bond issues (which effectively securitized the annual federal appropriations) and used the money they received from HUD to pay bond debt service.

Potential Impact on Credit Quality of Public Housing Authority Bonds

The federal government substantially cut the capital fund appropriation in the wake of the 2008 Financial Crisis and Great Recession. Annual support was slashed by a cumulative 37% from 2001-2012 and did not jump back toward historical levels until FY18.

On the surface it appears that the most recent appropriation increase should be, at the very least, a credit-neutral event. However, Moody's notes in a report from last year (there was a similar increase for FY19) that more information is needed:

> Despite the increased sectorwide appropriations, the credit quality of individual financings differs depending on HUD's funding to individual PHAs and the resulting debt service coverage on their bonds. Therefore, individual bond programs, particularly those with thin debt service coverage levels, are subject to volatility in credit quality based on funding levels determined by HUD's appropriation formula.[5]

Therefore, we will need to see how the individual payments flow before we make a final determination about the impact on credit quality. But, overall this result is more in line with the change we saw last year, and not from 2011-2017.

Please see disclosure starting on page 2.

[1] Elis, Niv and JulieGrace Brufke; House approves massive $1.4T spending package; The Hill; Dec 17, 2019.
[2] Samuels, Bret; White House: Trump 'poised to sig' $1.4 trillion spending bill; The Hill; Dec 17, 2019.
[3] Tumulty, Brian; 2020 federal spending deal boosts funding for state and local governments; The Bond Buyer; Dec 17, 2019.
[4] Arnold, Althea; Trump Administration's FY2020 Budget Proposes Significant Cuts to Key Federal Housing Programs; NCSHA; March 12, 2019.
[5] Increased federal funding to bolster capital fund bond programs; Moody's; Feb 27, 2019.