

To: City of Madison Community Development Block Grant Committee
From: Professor Kurt Paulsen, UW Madison
Date: June 5, 2025
Re: Recent Changes in Federal Housing Policies

Thank you for your continued service to the city and our most vulnerable residents. This update to federal housing policy is designed to assist you in your deliberations, plans, and ongoing oversight of the CDBG (and other) program(s). I am limiting this memo to those programs and policies most relevant/impactful to the City of Madison.

Disclaimer(s): this memo for informational purposes only and I am neither advocating nor lobbying for or against any legislation. The information presented is from publicly available sources and is current as of June 5, 2025, but subject to change in the future. Any opinions expressed herein are my own and do not necessarily represent the views of the Board of Regents of the Universities of Wisconsin or the City of Madison.

1. Timeline.

FY2025 runs from October 1, 2024 through September 30, 2025. Current FY2025 appropriations were finalized with passage of H.R. 1968, signed by the President in March, which extends funding through September 30, 2025.

Using the process of “reconciliation,” the House recently passed the One Big Beautiful Bill Act (OBBBA) which makes some changes to current tax and appropriations policies. There were no changes to HUD programs in OBBBA. As detailed below, OBBBA did make some changes to the Low-Income Housing Tax Credit (LIHTC) program.

However, the FY2026 (October 1, 2025 through September 30, 2026) appropriations process is still in process. The Transportation, Housing and Urban Development (T-HUD) Sub-Committee of the Appropriations Committee is scheduled for a “markup” on July 7th, 2025.

In the process of developing the FY2026 appropriations bill, the President submitted his full FY2026 budget proposal, available at: https://www.whitehouse.gov/wp-content/uploads/2025/05/appendix_fy2026.pdf.

HUD has provided further details in the “Congressional Justification” document, available at: https://www.hud.gov/sites/dfiles/CFO/documents/FY_2026_Congressional_Justification_E-File.pdf.

2. Consolidated Plan.

As you are aware, HUD-grantees (like Madison) for programs under HUD’s Office of Community Development and Planning (CPD) -- including HOME, CDBG, HOPWA and ESG -- are required to prepare Consolidated Plans for submission and approval by HUD. Consolidated Plans have, since 1994, required an Analysis of Impediments to Fair Housing Choice (AI) and have required that grantees “affirmatively further fair housing” [See, e.g., 42 U.S.C. 5304(b)(2)].

As of March 3, 2025, CPD grantees are no longer required to prepare an AI as part of a Consolidated Plan. The Affirmatively Furthering Fair Housing (AFFH) rule of 2021 (and 2015) has been rescinded. Grantees are now only required to self-certify that they will affirmatively further fair housing. See: 90 FR 11020, available at:

<https://www.federalregister.gov/documents/2025/03/03/2025-03360/affirmatively-furthering-fair-housing-revisions>

3. Fair Housing.

Regulatory Changes: A Presidential Executive Order of April 23, 2025

(<https://www.whitehouse.gov/presidential-actions/2025/04/restoring-equality-of-opportunity-and-meritocracy/>) directs the Secretary of Housing and Urban Development (among others) to propose regulations that eliminate the “disparate impact” theory of liability for civil rights violations under fair housing laws including, but not limited to, the Fair Housing Act and the Equal Credit Opportunity Act. As of today (June 5), HUD has not yet submitted any notice of proposed rulemaking on this topic.

Budget proposal: The President’s recommended budget (see: https://www.whitehouse.gov/wp-content/uploads/2025/05/appendix_fy2026.pdf) recommends \$0 funding for the FHIP (Fair Housing Initiatives Program) while recommending \$26 million funding for the FHAP (Fair Housing Assistance Program). Current FY25 funding for FHIP/FHAP is \$86 million.

FHIP provides grants to non-profit organizations, while FHAP provides grants to local/state governments. The City of Madison is not currently certified as an FHAP agency (see: <https://www.hud.gov/stat/fheo/partners-agencies>).

4. Low-Income Housing Tax Credit (LIHTC).

The City of Madison CDD and CDA frequently utilize LIHTC tax credits in their affordable housing programs. The OBBBA, passed recently by the House, makes a number of changes to the LIHTC program relevant to Madison: (For more information, see:

<https://www.ncsha.org/blog/house-passed-reconciliation-bill-provides-largest-housing-credit-expansion-in-quarter-century/>). A) Increases the “competitive” (“9%”) credit amounts for CY26 through CY29. B) lowers the “financed by” threshold for tax-exempt private-activity bonds from 50 percent (current) to 25 percent (through end CY29) for the “4%” credit. The 50-percent “financed by” test has been a more significant barrier in states (like California and New York) that are near their private-activity-bond volume cap. This has been less of a concern in Wisconsin.

5. Community Development Block Grant (CDBG) program(s).

A) The President’s FY2026 budget proposal recommends \$0 in funding for the CDBG program. Current FY25 funding authority is \$3.3 billion. HUD’s justification is, “the Budget discontinues funding for CDBG in favor of locally-driven housing and economic development strategies.” (P. 14-1).

B) Community Development Loan Guarantee (aka Section 108): The President’s proposed budget eliminates loan guarantee authority.

6. HOME Program.

The President's FY2026 budget proposal recommends \$0 in funding for the HOME program. Current FY25 funding authority is \$1.25 billion.

7. HUD-assisted housing programs.

Under current programs, the largest 5 HUD-assisted housing programs (total FY25 spending of \$63 billion)

- A) Tenant-based rental assistance (aka "Section 8" and/or "vouchers") (FY25: \$36 billion)
- B) Project-based rental assistance (aka "Section 8") (FY25: \$16.9 billion)
- C) Public Housing (FY25: \$8.8 billion = \$5.5b operating, \$3.4b capital)
- D) Housing for the elderly (aka "Section 202") (FY25: \$931 million)
- E) Housing for persons with disabilities (aka "Section 811") (FY25: \$256 million).

The president's budget proposes to "eliminate" all 5 HUD programs through consolidation into a Block Grant to states called the State Rental Assistance Program. The president's FY26 budget recommendation provides funding level of \$36.2 billion.

Specifics: (See:

https://www.hud.gov/sites/dfiles/CFO/documents/FY_2026_Congressional_Justification_E-File.pdf, beginning page 2-1ff).

- a) all housing assistance under the State Rental Assistance Programs for non-elderly, non-disabled households would be limited to 2 years.
- b) states would have substantial flexibility in how to design their programs.
- c) states could move away from the "deep subsidy" design of HUD-assisted housing programs (rent limited to 30 percent of tenant's income).

8. Homelessness programs.

Current FY25 funding: \$4 billion. President's proposed FY26 funding: \$4 billion.

The president's FY26 budget proposal recommends \$0 in funding for the Continuum of Care (CoC) or Permanent Supportive Housing (PSH) programs. Instead, funding would be distributed in block grants to states and localities under the ESG (Emergency Solutions Grant) program.

Specifics: (See:

https://www.hud.gov/sites/dfiles/CFO/documents/FY_2026_Congressional_Justification_E-File.pdf, page 18-1ff)

- a) eliminates "Housing First" approach
- b) eliminates "permanent" (i.e. without time-limits) in PSH
- c) from HUD justification: "locally-oriented approach that emphasizes self-sufficiency, rapid stabilization, and emergency, short- and medium-term housing solutions over long-term service dependency."
- d) expands ESG to include "supportive services" and "transitional housing"
- e) funding formula would include "performance"