

The Federal Government's Proposed Budget for Fiscal Year 2020

(As of March 18, 2019)

On March 18, 2019, The White House published President Trump's fiscal year 2020 budget. Below are highlights of the budget proposal that impact real estate.

Business Issues

Consumer Financial Protection Bureau (CFPB)

- The budget proposes to restructure the CFPB by limiting the Agency's mandatory funding. The budget proposes a \$23 million decrease in funding to the CFPB. Currently, the CFPB is funded by the Federal Reserve, not by Congressional appropriations. Each quarter the Federal Reserve transfers to the CFPB the amount of funds requested by the CFPB Director for Bureau operations and expenses, per the Bureau's budget request.
- Under the 2020 Budget proposal, the CFPB would be restructured to limit the Bureau's mandatory funding and would provide discretionary appropriations to the agency beginning in 2021, and not through the current process. The budget proposal would cap transfers from the Federal Reserve to the CFPB to \$485 million in 2020. Any additional funds needed by the Bureau would come from Congressional appropriations. The proposed legislative reform is to help reinforce financial discipline, reduce unnecessary spending, and ensure Congressional oversight of the agency.

In 2019, the CFPB issued its "Annual Performance Plan and Budget Overview for 2018-2022," and the Bureau is requesting \$503.9 million for fiscal year 2020 for activities and operations. 30 percent of funding will focus on consumer education and access to markets for consumer financial products and services. Forty percent of funding will focus on supervision and enforcement activities, while the remaining 30 percent will focus on enhancing the Bureau's information and systems and technology in addition to other operational needs.

- The Bureau identified three core goals in its Annual Performance Plan and Budget Overview that include: (1) ensuring all consumers have access to markets for consumer financial products and services; (2) implementing and enforcing the law consistently to ensure that markets for consumer financial products and services are fair, transparent, and competitive; and (3) fostering operational excellence through efficient and effective processes, governance, and security of resources and information. Each of the goals identified aligns with the Bureau's operations and functions and substantiates the Director's 2020 budget request.
 - ▶ NAR supports the existence of a federal agency, such as the CFPB, but maintaining the existing funding sources from the Federal Reserve to protect the agency's independence from Congressional appropriations. Such independence shields the agency from political pressures and bureaucratic impediments that may inhibit protection of consumer homeownership interests.

Department of Labor (DOL)

- The Budget proposes 10.9 billion for the Department of Labor (DOL) for 2020. This is a 9.7 percent (\$1.6 billion) decrease in DOL's funding compared to 2019 in an effort to promote efficiency within the Agency through modernization and reorganization.
 - ▶ The Budget looks to continue supporting Association Health Plans (AHPs) to allow more small businesses and self-employed individuals to pool resources and band together to offer affordable health insurance to their employees. The Budget supports increasing funding for the Employee Benefits Security Administration (by \$12.5m) to ensure such arrangements are not underfunded or mismanaged by improving investigations and reporting requirements and working collaboratively with states' enforcement agencies. NAR supports the Department of Labor's efforts to create a framework that would allow trade associations to offer AHPs to their respective memberships.

DOL Wage and Hour Division (WHD): The DOL Wage and Hour Division enforces minimum wage, overtime, and other wage laws, including issuing rules regarding work classification issues and oversight of non-immigrant visa programs. For fiscal year 2020, WHD is requesting \$232.5 million for its operations, which is over a \$3.5 million increase in funding from 2019. The increase in funding to modernize agency compliance tools and resources.

- WHD has helped more than 1.3 million workers and recovered more than \$1.3 billion dollars in back wages in total over the past five years due to its enforcement efforts. In 2018, WHD recovered over \$300 million in back wages, which was a first-time record for the agency. Also, in 2018 WHD found that on average, approximately \$1,150 was due for each employee owed back wages. From 2013 to 2018, WHD concluded more than 3,300 investigations of employees' adherence to the labor provisions of H-visa programs for nonimmigrant workers, finding more than \$64 million in back wages for more than 33,000 workers and assessing more than \$28 million in civil money penalties.
 - ▶ NAR strongly supports the continued right of brokers to choose whether to classify agents as employees or independent contractors. NAR supports actions at the state level to strengthen the rights of brokers to make these determinations and will resist efforts at the federal level to weaken those rights.

Commercial Issues

Federal Aviation Administration (FAA) – Commercial Use of UAS

- The budget supports \$43 billion in business lending to assist U.S. small business owners in accessing affordable capital to start, build, and grow their businesses. It proposes that SBA have flexibility to adjust fees across its business loan programs. This would allow the agency to finance both its anticipated lending and operational costs while ensuring it does not supplant services better provided solely by the private sector in periods of economic growth.

Small Business Administration (SBA) – Small Business Programs/Lending

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- Disaster loans: The budget supports more than \$1 billion in direct, low-interest lending to business owners/homeowners/renters/property owners in disaster loans.
- Small Business Development Centers: Requests \$101 million for Small Business Development Center program.
- Small Business Office of Advocacy: Supports \$9.1 million for the SBA Office of Advocacy, which promotes policies that minimize economic burdens faced by small business owners and analyzes the effects of proposed regulations and deregulatory efforts.

HUD – Qualified Opportunity Zones

- Provides \$100 million for the “Rental Assistance Demonstration” (RAD) program, which supports the redevelopment of Public Housing units through conversion to Housing Voucher and Project-Based Rental Assistance (PBRA) units. This request would prioritize the redevelopment of Public Housing properties located in Opportunity Zones. It also funds technical assistance to local municipalities that are seeking to attract public and private investments to their communities.

Conventional Financing

Guarantee Fee Tax

- The budget would double the existing 10 basis point fee on homebuyers to 20 basis points for FY 2020 to 2021. Instead of sun-setting the additional fee in 2021 as envisioned by Congress, it would be extended through 2029. This fee was adopted by Congress in 2011 to pay for a temporary tax cut during the Great Recession. The White House justification for the higher fee is to make private-label mortgage backed securities more competitive with those of Fannie and Freddie.
 - ▶ NAR has fought efforts to expand or extend non-housing fees placed on the GSEs

Capital Magnet and Housing Trust Funds Eliminated

- The budget proposes to eliminate the contributions Fannie Mae and Freddie Mac make to the capital magnet and housing trust funds. Congress established these trust funds, which Fannie and Freddie finance, to support community development and the construction of affordable housing. However, the Federal Housing Finance Agency (FHFA) cut off funding during the financial crisis. Later, FHFA Director Mel Watt reversed that move. Now the White House wants the funding source eliminated.
 - ▶ NAR has supported appropriate funding for the capital magnet and housing trust funds.

Financial Deregulation

- In the section on the Treasury Department, the White House reiterates the President’s commitment to rolling back the excesses in the Dodd-Frank Act. While the budget does cut funding for the Office of Financial Research, the document is mostly silent on other elements of financial reform. As expected, it references the Treasury Department’s white

papers on financial reform. There is no discussion of specific rules nor does it mention the U.S. Senate Banking Committee regulatory relief bill, which would remove financial regulations for many small financial institutions.

- ▶ NAR currently does not have policy in this area, but a Community Bank Regulatory Relief Work Group has been created to analyze the legislation to determine if policy is needed in this area.

Student Lending

- The White House budget would require colleges that accept federal student aid to also share some of the financial risk of ensuring graduates can repay their loans. There are no details on how this would work. The budget also calls for consolidating the income-based loan repayment programs into a single program. Students would pay 12.5% of their income for 15 years. After that, undergraduate loans would be forgiven. For graduate loans, the repayment period is 30 years. The White House also supports reforming student lending through reauthorization of the Higher Education Act, but it does not endorse a specific plan or call for private student lenders to take over more of the market.
- ▶ NAR has policy on streamlining student loan programs, but has concerns that one option for income-based repayment is too severe.

Environment and Energy Issues

Reductions in Federal Land Acquisition:

- The Budget reduces funding for land acquisition to \$33 million at the Department of the Interior (DOI) and eliminates funding at the Department of Agriculture's Forest Service (FS). DOI and FS are already responsible for managing 700 million acres of land and have maintenance backlogs of close to \$20 billion. Rather than acquiring additional lands, these agencies will focus on managing existing lands and assets, serving visitors and fighting fires.

Additional Resources Provided to Reduce Wildfire Risk:

- The budget significantly increases funding for wildland fire management programs at the DOI and FS to reduce hazardous fuel loads and support wildfire preparedness efforts. The Budget responsibly funds base suppression costs pursuant to the Consolidated Appropriations Act, 2018, bolstered by \$300 million in additional suppression resources under the recently enacted wildfire cap adjustment. In addition, the Budget requests \$194 million for DOI's hazardous fuel mitigation work and \$172 million for DOI timber programs. Together, these programs help ensure that Federal lands and watersheds are sustainable, healthy, and productive. These programs also generate jobs in rural communities and help make them safer and more resilient.

Invests in America's Surface Transportation Infrastructure:

- The 2020 Budget fully funds Highway Trust Fund-supported programs at levels consistent with the fifth and final year of the FAST Act. In addition, the 2020 Budget includes \$200 billion for additional infrastructure investments. The Administration will work with the Congress to advance projects that provide the most benefit to Americans.

Invests in Water Infrastructure Construction, Repair, and Replacement:

- The Budget funds water infrastructure through EPA's State Revolving Funds, the Water infrastructure Finance and innovation Act (WiFiA) credit program, and the recently authorized America's Water infrastructure Act (AWiA). The 2020 capitalization of the State Revolving Funds would supplement approximately \$80 billion currently revolving at the State level. Credit subsidy funding for WiFiA would continue the program's momentum by supporting more than \$2 billion in direct loans which, when combined with other funding sources, would spur more than \$4 billion in total water infrastructure investment. In addition, the Budget proposes funds for AWiA grant programs that would assist in lead testing and drinking water fountain replacement in schools, sewer overflow control, and water infrastructure workforce investment.

Federal Housing Issues

Multi-Family

- The FY20 HUD budget would eliminate Community Development Block Grants and the HOME Investments Partnership Program. These are programs that NAR has supported. It would also provide no new funds for the Veterans Affairs Supportive Housing Vouchers (VASH). The budget would also cut operating funds for Public Housing Authorities, which administer many local assisted housing programs.
- The budget provides funding for tenant-based rental assistance contracts at approximately the same level it was funded in FY19.
- The FY20 USDA budget includes \$1.4 billion for the Section 521 Rural Rental Assistance program, an increase over last year. However, it proposes the elimination of the Multifamily preservation and revitalization program, which has been successful in keeping rural multifamily units in the program. It also eliminates the 515 Rental Housing direct loan program.

Single Family

HUD

- The budget asks for \$20 million to support upgrades to Single Family IT Fund. This will be supported by a \$25 fee on each loan, which would expire in four years.
- The budget asks for \$45 million for housing counseling, less than the \$50 million provided in FY19.

Rural Development

- No funding provided for RHS Direct Loans
- The budget requests \$3 million to implement direct endorsement by lenders of the single-family loan guarantee program.

Federal Tax

As was the case last year, the Trump Administration's budget proposal for Fiscal Year 2020 does not include a set of detailed tax proposals as had been the tradition for decades before then. The so-called Treasury "Green Book" typically included dozens of specific tax proposals in many areas, along with cost estimates. Among the few specific tax proposals that are included in the document, the following are the most relevant to real property and real estate professionals.

- The budget calls for the permanent extension of those portions of the Tax Cuts and Jobs Act of 2017 that are set to expire at the end of 2025. This includes provisions affecting individuals, including the tax rate reductions, the increase of the standard deduction, the \$10,000 limit on the state and local tax (SALT) deduction, and the 20 percent tax deduction on qualified business income under Section 199A, among many others.
- The budget also calls for increased funding for the Internal Revenue Service of nearly \$15 billion over the next 10 years. The budget estimates that the increased tax enforcement from this additional funding will yield an additional \$47 billion in tax revenue collected, showing a net savings of \$33 billion.
- A related initiative to "Improve Tax Administration" included in the budget aims to improve the accuracy of tax returns filed by paid preparers, better wage and information reporting, more effective policing of refundable tax credits, and the granting of additional authority to IRS to correct errors on tax returns. The estimated savings from these changes total over \$88 billion over 10 years.

Flood Insurance

- National Flood Insurance Reforms.
 - ▶ Proposes to phase-out grandfathering based on location or date of construction
 - ▶ Proposes new means-tested affordability program based on income or ability pay.NAR policy supports phasing-in full-risk rates gradually over time but preserving the practice of grandfathering for those who build to code.
- Flood Map Funding. Requests \$100 million – \$163 million less than 2019.
NAR policy supports maintaining a 50-50 funding split between taxpayers and policyholders because both benefit from the maps, which identify where to build and locate more safely.

Health Insurance Issues

Department of Health and Human Services

- The Administrations' budget proposal requests \$87.1 billion, proposing \$1,248.8 billion in net mandatory savings. This is a 12 percent decrease from the 2019 budget level to help reduce long-term deficits. The budget proposal promises to promote public health needs by combating the opioid epidemic, supporting mental health services, and preparing for public health threats by eliminating infectious diseases and supporting biomedical research and new innovative technology. The proposed budget also prioritizes reducing drug-related costs to improve the health of older Americans and investing in child care to support America's working families.

The budget supports efforts to modernize Medicaid to enhance state flexibility, reduce wasteful medical spending, and offer tools for improving and protecting the Medicare program. The budget also empowers states by supporting state block grants to increase flexibility while improving choice and competition in the health care marketplace and supporting consumers by increasing access to Health Savings Accounts (HSAs).

- ▶ NAR supports a health care delivery system that provides cost effective, quality care in an efficient and timely manner in order to be affordable and sustainable for society. NAR is closely watching all health care reform efforts and the potential impact on members.