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Appropriations for FY2004: VA, HUD, and Independent Agencies

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Appropriations are one part of a complex federal budget process that includes budget resolutions, appropriations (regular, supplemental, and continuing) bills, rescissions, and budget reconciliation bills. The process begins with the President's budget request and is bounded by the rules of the House and Senate, the Congressional Budget and Impoundment Control Act of 1974 (as amended), and current program authorizations.

This Report is a guide to one of the 13 regular appropriations bills that Congress passes each year. It is designed to supplement the information provided by the House and Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies. It summarizes the current legislative status of the bill, its scope, major issues, funding levels, and related legislative activity, and is updated as events warrant. The Report lists the key CRS staff relevant to the issues covered and related CRS products.

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Appropriations for FY2004: VA, HUD, and Independent Agencies

Summary

The Administration has submitted its request for FY2004 appropriations for the Departments of Veterans Affairs (VA) and Housing and Urban Development (HUD), and several Independent Agencies, including the Environmental Protection Agency (EPA), the National Aeronautics and Space Administration (NASA), and the National Science Foundation (NSF).

The Administration requests a total of $126 billion for programs funded through the VA, HUD, and Independent Agencies appropriations bill, including $90 billion in new, discretionary funds. The remainder includes $32.4 billion in mandatory spending for VA cash benefits (entitlements), $4.2 billion in advance appropriation, and an offsetting $633 million in rescissions to prior appropriations.

The request for VA is for $60.4 billion, $2.3 billion more than provided in FY2003. The request includes $24.8 billion for medical care, an increase of $1.3 billion over the FY2003 level.

The budget requests $31.73 billion for HUD for FY2004, $719 million more than provided for FY2003. The HUD budget emphasizes homeownership opportunities for families and individuals "to lift themselves towards self-sufficiency and achieve the American Dream." While a number of other homeownership initiatives are proposed, most of the proposed budget continues to support rental housing assistance. Under the President's proposal, Section 8 tenant-based and project-based rental programs would have a combined funding level of $18.43 billion, up $1.3 billion over the previous year. The increase would fund 5,600 new vouchers, targeted for nonelderly disabled. The Section 8 program would be split into two components. The largest part, a new *Housing Assistance for Needy Families (HANF)* initiative, would convert the Section 8 housing choice voucher program into a block grant to states; the Section 8 project-based rental assistance program would remain largely unchanged.

The request for EPA is $7.6 billion, compared to $8.1 billion appropriated for FY2003. Accounting for much of the proposed decrease is the Administration's decision to seek reduced funding of $714 million for State and Tribal Assistance Grants. About one-half of this decrease would be derived from popular wastewater grants and the rest from assistance to State Revolving Funds used to support municipal wastewater infrastructure projects.

NASA is requesting $15.5 billion, a slight increase over FY2003. On February 1, 2003, the space shuttle *Columbia* broke apart as it returned to Earth following a 16-day scientific mission in orbit. All seven astronauts aboard were killed. An investigation into the tragedy is underway, and the shuttle fleet is grounded. The *Columbia* tragedy may affect FY2003 and FY2004 funding for the shuttle program, the space station program, and the space station research program, and may also affect NASA's plans to build an Orbital Space Plane.

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Appropriations for FY2004: VA, HUD, and Independent Agencies

Most Recent Developments

President Signs FY2003 Consolidated Appropriations Act (P.L. 108-7). On February 20, 2003, President George W. Bush signed the consolidated appropriations bill (H.J.Res. 2; P.L. 108-7), thereby bringing to a close appropriations actions to fund agencies whose funding had been dependent on resolutions to continue spending at FY2002 levels.

Congress Completes Work on FY2003 Appropriations. With adoption of the Conference Report (H.Rept. 108-10) to H.J.Res. 2 on February 13, 2003, Congress finished work on FY2003 appropriations.

Administration Submits FY2004 Budget Request. On February 3, 2003, President George W. Bush submitted the Administration's budget for FY2004 to Congress.

House Committee on Appropriations Reports H.R. 5605. In the 107th Congress, on October 10, 2002, the House Committee on Appropriations reported (H.Rept. 107-740) a bill to provide FY2003 appropriations for the Departments of Veterans Affairs (VA) and Housing and Urban Development (HUD), and various other independent agencies. H.R. 5605 recommended a total of $122.6 billion (net, after rescissions) in budget authority for the activities of the departments and agencies covered by the bill.

Senate Committee on Appropriations Reports S. 2797. In the 107th Congress, the Senate Committee on Appropriations had reported (S.Rept. 107-222) its version of an appropriations bill for VA, HUD, and Independent Agencies for FY2003 on July 25, 2002. S. 2797 recommended $124.5 billion (net, after rescissions).

Status

Table 1. Status of VA, HUD and Independent Agencies Appropriations, FY2004

Subcommittee markup							Conference Report		
House	Senate	H.Rept.	Passed House	S.Rept.	Passed Senate	Conference Report	House	Senate	Signed P.L.

Total Appropriations Enacted for FY2003 and Requested for FY2004 for VA, HUD, and Independent Agencies

Table 2. Summary of VA, HUD, and Independent Agencies Appropriations, FY2003-FY2004
(budget authority in billions)

Department or Agency	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
Department of Veterans Affairs	58.100	60.364			
Department of Housing and Urban Development	35.209	35.928			
Environmental Protection Agency	8.078	7.631			
National Aeronautics and Space Administration	15.339	15.469			
National Science Foundation	5.310	5.481			
Other Independent Agencies	.920	1.116			
Grand Total: Appropriations	**122.958**	**125.989**			
mandatory	*31.581*	*32.355*			
discretionary	*91.377*	*93.634*			

Source: Preliminary estimates prepared by the House Committee on Appropriations.

Note: Totals will not add due to rounding at agency level. Totals are net, after incorporating supplementals, rescissions and other reductions, and advance appropriations.

Title I: Department of Veterans Affairs

Spending for VA Programs

FY2004. The President requested $60.4 billion for the Department of Veterans Affairs (VA) for FY2004, according to Congressional estimates from the House Committee on Appropriations. Of that amount, $32.4 billion in mandatory spending authority will fund VA cash benefit programs, and slightly more than $28 billion was requested for discretionary programs, including $24.8 billion for medical care.

FY2003. The President requested $56.94 billion for the Department of Veterans Affairs for FY2003, according to Congressional estimates contained in the Conference Report (H.Rept 108-10) to H.J.Res 2, the consolidated appropriations bill for FY2003 (P.L. 108-7). P.L. 108-7 provided $58.1 billion for VA programs for the fiscal year ending September 30,2003, including $31.58 billion in mandatory spending for VA entitlements, and $26.5 billion for discretionary programs, $23.5 billion of which is for medical care for veterans.

Table 3. Department of Veterans Affairs Appropriations, FY1999-FY2003
(budget authority in billions)

FY1999	FY2000	FY2001	FY2002	FY2003
$44.25	$46.04	$47.95	$52.38	$58.10

Source: Figures for FY1999-FY2002 are from administration budget submissions of subsequent years; FY2003 is from preliminary data prepared by the House Committee on Appropriations, and is the latest available estimate for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

VA Cash Benefits. Spending for the VA cash benefit programs is mandatory, and the amounts requested in the budget are based on projected caseloads. Eligibility requirements and benefit levels are specified in law. While the number of veterans is declining, VA entitlement spending, mostly service-connected compensation, pensions, and readjustment (primarily education) payments, reached $23.4 billion in FY2000, $25.7 billion in FY2001, $28.4 billion in FY2002, and is projected to reach $31.6 billion in FY2003. Much of the projected increases in FY2001-FY2003 result from cost-of-living adjustments for compensation benefits, and from liberalizations to the Montgomery GI Bill, the primary education program.

Compensation and Pensions. The compensation program pays benefits to living veterans who have suffered a loss or reduction in earning capacity as a result of a condition traceable to a period of military service, and to the dependent survivors of certain veterans. The VA pension program is a means-tested benefit for permanently disabled (from a condition unrelated to their military service) veterans of war-time service, whose incomes and assets fall below certain levels. After taking into consideration the financial circumstances and dependents of eligible veterans, the pension payments, along with countable income, are intended to bring their total incomes to the basic targeted amounts.[1] Given the broad availability of other sources of income, including Social Security, program caseload is diminishing, as fewer veterans have incomes below the categorical levels.

During FY2002, about 2.4 million veterans drew an average of $662 in monthly compensation for service-connected disabilities, and about 308,000 of their surviving dependent spouses received an average of about $1,046 in monthly payments. Pensions for 347,000 veterans averaged about $623 monthly; 235,000 survivors of veterans pensioners averaged about $261 monthly.

Readjustment. Following a tradition going back to the beginnings of the Republic, near the end of World War II Congress enacted a series of programs to assist veterans in their readjustment to civilian life, and to help the national economy adapt to the influx of demobilizing armed forces. The GI Bill has entered the

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[1] For 2003 the annual basic level for an eligible single veteran is $9,690; with one dependent, $12,692; and each additional dependent, $1,653. Additional amounts are available for eligible veterans who are housebound, or in need of aid and attendance.

national lexicon as an example of federal responsibility for this readjustment responsibility, and many citizens continue to refer to the current array of programs by that historical name. Indeed, the largest current program providing readjustment education benefits is named the Montgomery GI Bill program, for its congressional sponsor and the heritage it brought into the age of an all-volunteer military service.

Without conscription to fill the ranks of active duty armed services, the inducements to potential recruits must be sufficient to attract them to enlist. The Montgomery GI Bill provides recruits with the promise of educational assistance when they separate, and the amounts that eligible participants receive has climbed significantly over the last few years. The previous payment of $800 per month for 36 months for a participant completing a 3-year enlistment rose to $900 per month on October 1, 2002, and will rise to $985 per month on October 1, 2003.

During FY2003, about $2.3 billion in total payments for education payments will go to 326,000 active duty personnel and veterans, 82,000 reservists, and 52,000 dependents. About 160,000 veterans will receive other forms of tuition assistance, 65,000 will receive vocational assistance, and 81,000 will receive assistance with preparing for and taking licensing and certification tests.

Medical Care. VA operates the nation's largest health care system, with 172 hospitals, 137 nursing homes, 43 domiciliaries, 206 readjustment counseling centers, 73 home health-care programs, and almost 900 outpatient clinics. About 88% of VA's 207,000 employees provided medical services to an estimated 4.7 million veterans during FY2002, a caseload expected to reach 4.9 million by the end of FY2003. The FY2001 caseload was about 4.2 million unique patients. Almost 2,000 medical care employment slots were predicted to shift from inpatient programs to outpatient care during FY2002.

Outpatient visits are rapidly increasing. The total number of such visits reached 43.8 million during FY2001, and was projected to increase by 2.3 million over FY2002-FY2003, from slightly less than 47 million to 49.2 million. Veterans who are provided outpatient care average around 12 visits per year.

According to VA data, the daily inpatient caseload for FY2002 was estimated to be 57,522, and is expected to rise to 58,361 patients by the end of FY2003. There is a decline in all service units except for two categories, acute care and nursing homes. Acute care patients have increased because of the larger number of veterans who are seeking VA medical services, and while the total number of acute care cases has increased by 2,700 over the last year, the average daily census for acute care has declined by 20 patients, the result of a decline in the average length of stay. The aging of the veteran population, and the congressional commitment to increase the capacity of VA to serve this population, means that the number of patients receiving convalescent care will increase by over 7,000 during FY2003, with the average daily nursing home census rising by 1,205 patients.

The FY2004 Budget Request for VA Medical Care. The Administration asked Congress to provide $24.8 billion for VA medical care for FY2004, continuing the annual increases in funds as the program continues to serve a larger number of veterans each year. Congress provided $23.5 billion for FY2003; $21.3 billion for FY2002; $20.3 billion for FY2001; and $19 billion for FY2000.

P.L. 108-7. The $23.5 billion Congress appropriated for FY2003 VA medical care was the amount previously approved by both the House and Senate Committees on Appropriations, a $2.6 billion increase over FY2002, and $1.1 billion above the amount requested. In its report to accompany the draft bill (S.Rept. 107-222), the Senate Committee states that it is "... deeply concerned about overwhelming evidence that the VA medical system is failing its core constituency — service-connected, lower income, and special needs veterans ... [from] numerous anecdotal examples where VA's core constituency does not have access to timely, quality medical care because the networks that serve them are operating with long waiting lists."

The report cites VA data claiming that 310,000 veterans are on waiting lists for medical care, and that many veterans are waiting as much as 6 months for an appointment to see medical staff, a waiting time expected to grow "if current guidelines and expectations do not change." However, in spite of the evidence supporting the perception of expanding waiting lists and longer appointment times, there does not appear to be evidence that VA is denying care to veterans who need it, and it appears that VA is making decisions about the order of treatment given to veterans entirely on a medical basis.

The report suggests that there are three reasons for the growth in demands on the VA medical care system:

- *Increased outpatient access*. Increased outpatient access to a system with generous health benefits has encouraged veterans to seek care at VA.
- *Added perception of eligibility*. Eligibility reform in 1996 made more veterans explicitly eligible for outpatient care. (Veterans were eligible for outpatient care before 1996 if a VA physician prescribed it in order to avoid hospitalization, but many veterans did not believe they were eligible.)
- *Generous prescription drug benefit*. The lack of an alternative national prescription drug program has encouraged veterans, an aging population with an increasing demand for drugs, to seek drug benefits from VA, especially given that VA is limited in the extent to which it pursues copayment obligations.

The report supports a view shared by those who believe that VA should primarily serve a "core constituency" who seek care after they have been adjudicated as having a service-connected basis for VA benefits, or because they have been determined to meet the income/asset tests that indicate limited ability to pay for care elsewhere. Critics say that if that view were to become the basis for determining who does not receive care at any time, then medical judgements about the priority by which limited medical resources are used to provide needed care (triage) would no longer be the sole basis for decisions. Instead, the system could begin to give priority to certain individuals, regardless of judgements by medical staff about the urgency of any particular medical service.

At the present time, veterans who present themselves at a health care intake desk and state a medical symptom are screened and treated by medical professionals who do not evaluate administrative criteria before providing the medically indicated services. There is no evidence that any such applicants for immediate medical evaluation and care are being turned away, and VA data suggest that the medical system is improving the delivery of care by decreased waiting times for appointments and diminished times for walk-in patients in the facility waiting rooms. As VA staff see more walk-in patients while reducing waiting room times, it is possible that appointment delays will increase, unless additional staff slots are provided to handle the increased load.

Thus, the increases in appropriations to VA medical care over the last few fiscal years, and the growth in capacity supported by those increases, have encouraged even more veterans to seek care from VA. The growth in the number of veterans served will likely continue to increase, as veterans recognize the advantages to them of seeking care from VA facilities. P.L. 108-7 gives VA the authority to require VA medical facilities to provide care according to statutory priorities. It remains unclear whether such authority will ultimately result in VA limiting medical services according to administrative criteria rather than medical judgements.

Medical Care Cost Collections. In addition to the funds provided by Congress, VA medical care is also authorized to "recycle" budget authority from amounts VA facilities collect from various sources with an obligation to help defray the cost of VA care for certain patients. The Balanced Budget Act of 1997 (P.L. 105-33) gave VA authority to retain net receipts of the Medical Care Collections Fund (MCCF), allowing the funds to be spent for medical services to veterans rather than be transferred to the Treasury as under previous law. Collection receipts added $691 million in recycled spending authority in FY2002 and are projected to add $1.386 billion in FY2003 and $1.8 billion in FY2004.

Medical Research. The VA engages in research as an ancillary function of the treatment of veterans, and conducts independent research projects intended to advance medical science. Almost one-half of VA's research funding comes from conventional medical research funding sources, the bulk of which is provided through grants from the National Institutes of Health (NIH). The remaining funds supporting VA research are split almost evenly between appropriations from Congress specifically for such research, and salaries and expenses from the VA medical care budget for the VA medical staff who are producing the studies that exhibit VA's research findings. About two-thirds of the research projects are initiated by the medical staff reporting their findings. These projects are giving greater attention to the diseases associated with an aging population, especially in conjunction with the management of those chronic conditions that are a growing part of the outpatient workload.

The Administration requested $822 million for medical research programs for FY2004. P.L. 108-7 provided $400 million for VA medical research for FY2003. Congress provided $371 million for VA research in FY2002, $350 million for FY2001, and $321 million for FY2000.

Housing Benefits. The VA program to guarantee home loans for veterans has made a significant contribution to the national goal of increasing the number of families who own their own homes. Because of the guarantees, lenders are protected against losses up to the amount of the guarantee, thereby permitting veterans to obtain mortgages with little or no down payment, and with competitive interest rates. These guarantees, and certain direct loans to specific categories of veterans, were obligations of the federal government that constituted mandatory spending. Administrative expenses are discretionary appropriations, that in previous fiscal years have been transferred from the home loan programs to the General Operating Expenses account. For FY2004, the Administration proposes to treat administrative expenses for all programs as part of the request for the program, instead of having one requested amount for general administration.

VA Construction. The Administration's FY2004 budget requests construction funds as an amount attached to the program budget authority line for which the construction is intended. The total amount of construction funds requested is $525 million for FY2004. P.L. 108-7 provides $100 million for major construction, and $226 million for minor construction (projects with an estimated cost under $4 million). "Major construction" projects have an estimated cost over $4 million. Many of the construction projects will continue VA's overall strategy of expanding outpatient access for medical care.

Capital Asset Realignment. In 2000, VA embarked on a planning approach to constructing, altering, extending, or improving facilities. In part, this approach, called Capital Asset Realignment for Enhanced Services (CARES), was the Department's reaction to criticism from areas of the country in which hospital resources have been cut back, in order to redirect those resources to outpatient care, usually in other geographical areas.

While VA has been successful in expanding the number of patients it serves, conflict continues between advocates of a more efficient use of resources (who advocate reducing hospital space and closing or selling superfluous inpatient facilities), and veterans groups (who see any reduction in inpatient care as a threat to the veterans' services). The CARES effort is an attempt to make the planning process by which the capital assets are developed, used, modified, or relinquished, open to veterans groups. Often, the fears about reductions in health care to veterans are based on an inadequate understanding of the improvements in care for more veterans that such realignment of resources makes possible.

Some veterans have expressed the belief that, over time, moving resources from an inpatient facility in one area to outpatient access in another yields an unacceptable rate of deterioration in the former facility, as the commitment to maintain the building is diminished as the Department moves toward its eventual abandonment.

Burial and Cemetery Benefits. The Administration requested $156 million to honor and help defray the cost of veterans' burials during FY2004; Congress provided $157 million for that service for FY2003, which covers about 84 thousand burials, 69 thousand burial plots, 9 thousand service-connected deaths, 528 thousand flags, and 354 thousand headstones and markers.

The following table shows appropriations to VA for FY2003, and the Administration's request for FY2004. As the milestones are reached, the report will be updated to show amounts recommended by each House for FY2004, and the amounts ultimately enacted by Congress and signed by the President.

Table 4. Appropriations: Department of Veterans Affairs, FY2003-FY2004

(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
Compensation	25.530	25.980			
Pension	3.300	3.391			
Readjustment benefits	1.672	1.905			
Vocational rehabilitation	.525	.561			
Insurance/indemnities	.028	.029			
Housing prog.(net, indef.)	.984	.331			
Burial	.157	.157			
Undistributed adjustment	*-.615*	— -			
Subtotal: Mandatory	*31.581*	*32.355*			
Medical care[a]	23.486	24.794			
Med., prosthetic research	.806	.822			
Medical administration	.074	.087			
Gen. admin. exp. (total)	1.646	1.585			
Inspector General	.058	.062			
Construction	.318	.525			
Grants; state facilities	.099	.102			
State veteran cemeteries	.032	.032			
Undistributed adjustment	*-.001*	— -			
Subtotal: Discretionary	*26.519*	*28.009*			
Subtotal: (VA)	**58.100**	**60.364**			

Source: Preliminary estimates prepared by the House Committee on Appropriations

Note: Totals for FY2003 include supplementals.

[a] Medical Care Collections Fund (MCCF) receipts are restored to the Medical Care account as an offset equal to the revenue collected, estimated to be $1.386 billion in FY2003; the amount projected for FY2004 is $1.8 billion.

Department Administration. In its FY2004 budget request for VA, the Administration distributed the request for administrative expenses among the several programs to be served by those administrative personnel. In the past, most administrative costs were shown as a total under the General Operating Expenses (GOE) account, with a separate request for medical care administration. For FY2004, the total requested for general administration is $1.585 billion, and $87 million for medical administration. P.L. 108-7 provides $1.254 billion for GOE for FY2003, and $75 million for medical administration. Congress provided $1.2 billion for GOE and $67 million for medical administration, for FY2002.

VA Employment Estimates. The Bush Administration projects an overall VA employment decline to an average of 204,670 in FY2002, down from an average 205,896 during FY2001, which was up from an average of 202,621 during FY2000, and 205,547 in FY1999. Much of the decline was in medical staff, which VA projected would average 179,300 during FY2002.

Title II: Department of Housing and Urban Development

Introduction

Most of the appropriations for the Department of Housing and Urban Development (HUD) address the housing problems faced by households with very low incomes or other special housing needs. Programs of rental assistance for the poor, elderly or disabled, housing assistance for persons with AIDS, varying types of shelter for those who are homeless — all deal with the issue of the availability of low-cost housing. The two large HUD block grant programs, HOME and Community Development Block Grants, also help communities finance a variety of activities to address housing needs of disadvantaged populations. Since 1994, when the Clinton Administration started its homeowner initiative in partnership with the housing industry, HUD has focused more attention than previously on efforts to increase homeownership opportunities for lower-income and minority households.

This section of the report on the FY2004 HUD budget first summarizes the major issues in the proposed budget, and then examines individual programs, comparing enacted levels for FY2003 with proposals for FY2004, highlighting significant changes in funding levels and associated issues.

Highlights of the Proposed HUD Budget

- FY2004 budget request of $31.73 billion, up by about $719 million over the $31.01 billion enacted for FY2003 (including a 0.65% "across-the-board" rescission enacted in FY2003);
- New Housing Assistance for Needy Families (HANF) block grants to states, funded at $13.6 billion (including the use of recaptured funds) to replace current Section 8 housing choice vouchers;
- Approximately 5,600 incremental housing vouchers, targeted to non-elderly disabled families;

- No new funding for the HOPE VI public housing program, Brownfields Redevelopment, Rural Housing Economic Development, and Empowerment Zone/Enterprise Communities programs;
- A new Public Housing Reinvestment Initiative to encourage private capital for the rehabilitation of public housing;
- New homeownership initiatives, including a $200 million set-aside within HOME for the American Dream Downpayment Initiative, $45 million for counseling, and new FHA insurance products to help lower income and minority households;
- Increased funding for homeless assistance, with new Samaritan Initiative; and
- New efforts to combat predatory lending.

The Major Issues

There are a number of basic themes in the FY2004 budget proposal: devolution, deregulation, more private capital involvement in solutions to housing problems, and efforts to increase homeownership for lower income and minority households (to increase their net worth and financial independence). Of particular controversy are major changes in the way the agency would operate and fund its two largest housing programs, Section 8 tenant-based vouchers (about 2 million vouchers) and public housing (about 1.25 million units).

The Administration's major initiative, the ***Housing Assistance for Needy Families Act of 2003*** **(HANF)**, presented in the FY2004 budget proposal and introduced on April 30, 2003 as H.R. 1841/S. 947, would convert the existing Section 8 housing choice voucher program into a state-administered block grant program. Grants would be made to states to provide tenant-based rental and homeownership housing assistance.

Under the current program, there are thousands of pages of federal regulations that are cited as inhibiting HUD from quickly adjusting the program to meet local needs. HUD contends that by eliminating most of these regulations (and limiting its involvement largely to oversight of performance standards), each state would have the flexibility to be innovative in meeting its unique housing problems.

HUD suggests that the approach could make it possible to end a chronic problem of unspent monies in the housing voucher program. Opponents claim that funding under the new HANF program would be unlikely to keep pace with rapidly rising housing costs, and that states might establish new requirements such as time limits on tenant assistance, similar to those under welfare reform programs. Opponents also suggest that a block grant could merely add another layer of bureaucracy if states reroute federal funds back to the same local housing authorities.

The Administration's FY2004 budget does not request funding for the **HOPE VI program** for the revitalization of distressed public housing. This program received $570 million in FY2003. HUD Secretary Martinez argues that there are sufficient unspent funds in the pipeline to keep this program operating, and in the meantime, he hopes for a dialogue with Congress on how the program might be improved. During congressional hearings on the proposed budget in February, March, and April 2003, considerable bipartisan support was expressed for the continued funding of the program. On May 21, 2003, the House Financial Services Committee approved H.R. 1614 (H.Rept. 108-165) that reauthorizes HOPE VI through FY2005.

The Administration is again proposing its **Public Housing Reinvestment Initiative** to encourage Public Housing Authorities (PHAs) to convert some public housing units to Section 8 project-based assistance. Under this initiative, PHAs would turn to the private sector for rehabilitation loans, pledging the project-based revenues as collateral. Congress rejected this reinvestment initiative last year, directing HUD to report to the Appropriations Committees about PHAs that have already obtained private financing for their capital needs.

Table 5. Department of Housing and Urban Development Appropriations, FY1999 to FY2003

(net budget authority in billions)

FY1999	FY2000	FY2001	FY2002	FY2003
$24.08	$25.92	$28.48	$30.15	$31.01

Source: Figures for FY1999-FY2002 are from Administration budget submissions of subsequent years. The FY2002 number does not include $2 billion in emergency supplemental funds for the Community Development Fund for assistance to New York City following the terrorist attacks of September 11, 2001. FY2003 is from preliminary data prepared by the House Committee on Appropriations, and is the latest available estimate for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

HUD would like to move public housing towards private ownership, with more market-based decisions about the operations and maintenance of projects. HUD also contends that the large backlog of modernization needs faced by PHAs may be more quickly addressed if annual capital fund appropriations are supplemented by an infusion of private capital. Opponents argue that the $90 billion public housing stock is a national asset that provides a social safety net for the most disadvantaged and poorest of households — and that it should not be mortgaged or sold off.

Under the President's FY2004 budget, the HOME housing block grant program would be increased by $210 million to $2.2 billion, with $200 million of the increase set-aside for the Administration's **American Dream Downpayment Initiative**. HUD estimates that this program would provide an average grant of $5,000 for downpayment and closing cost assistance for 40,000 low-income households each year.

Few are opposed to increasing homeownership opportunities for lower income households (unless it means less funding for rental assistance), but they urge caution in putting lower income households into their first home if they have a high risk of failure because of inadequate savings or the inability to protect themselves from a variety of financial predators. On May 21, 2003, the House Financial Services

Committee approved H.R. 1276 (H.Rept. 108-164), the Administration's Downpayment Initiative.

FY2003 Appropriations

President Bush signed P.L. 108-7, the consolidated appropriations bill for FY2003, on February 20, 2003, nearly 5 months into the fiscal year. The law provided HUD with $31.01 billion (after application of a 0.65% across-the-board rescission included in the law). HUD's largest program, the Housing Certificate Fund (frequently referred to as "Section 8"), received $17.1 billion, almost $1.5 billion more than enacted in FY2002.

Despite the increase, no incremental housing vouchers were funded — that is, there was no increase in the number of low-income renters assisted. The FY2003 appropriations law included some reforms to address the chronic underutilization of housing voucher funds, directing that HUD only renew contracts with PHAs for the number of vouchers they had under lease, not those simply authorized in the previous year.

The conferees approved $2.7 billion in FY2003 for the Public Housing Capital Fund, $113 million below the FY2002 funding level. The Administration's Public Housing Reinvestment Initiative, designed to encourage PHAs to convert some public housing units to Section 8 project-based assistance, was rejected. Under this initiative, PHAs would pledge the project-based revenue as collateral for rehabilitation loans. The conferees directed HUD to report to the Appropriations Committees about PHAs that have already obtained private financing for their capital needs.

P.L. 108-7 increased the Public Housing Operating Fund to $3.58 billion, $82 million above the FY2002 level. The conferees agreed to allow HUD to use this appropriation to cover a controversial $250 million shortfall for FY2002 that the agency blamed on flaws in its accounting system. This transfer effectively reduced the FY2003 appropriation by $250 million.

The HOPE VI program, which is used to rehabilitate or tear down the worst public housing units, received $570 million, level with the prior year's funding. Almost $5 billion was approved for the Community Development Block Grant program, nearly the same as in FY2002, while the HOME block grant received an increase of about $141 million to a total of just under $2 billion. There was a $75 million set-aside within the HOME program for the Administration's Downpayment Assistance Initiative, which was less than its $200 million request.

Housing for the elderly was funded at $776 million, down by $7 million from FY2002, and housing for the disabled received $251 million, up by about $10 million. Housing opportunities for persons with AIDS was funded at $290 million, an increase of about $13 million. The Administration has made ending chronic homelessness in the next 10 years a top priority. The conferees agreed to $1.22 billion, $93 million more than enacted in F2002.

For more details, see CRS Report RL31304, *Appropriations for FY2003: VA, HUD, and Independent Agencies*.

Table 6. Appropriations: Housing and Urban Development, FY2003-FY2004

(budget authority in billions)

Programs	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Housing Certificate Fund (HCF)	17.112	—			
HCF appropriation	*12.939*	—			
advance appropriations	*4.173*	—			
Housing Assistance for Needy Families (HANF)[a]	—	12.535			
HANF appropriation	—	*8.335*			
advance appropriations	—	*4.200*			
Project-based Rental Assistance	—	4.823			
Section 8 recaptures (rescission)	-1.600	-0.300			
Public housing capital fund	2.712	2.641			
Public housing operating fund	3.577	3.574			
Revitalization of distressed public housing (HOPE VI)	0.570	0.000			
Native American housing block grants	0.645	0.647			
Indian housing loan guarantee	0.005	0.001			
Native Hawaiian Block Grant	—	0.010			
Native Hawaiian loan guarantee	0.001	0.001			
Housing, persons with AIDS	0.290	0.297			
Rural Housing Economic Development	0.025	0.000			
Empowerment zones; enterprise communities	0.030	0.000			
Community Develop. Block Grant	4.905	4.716			
Colonias Initiative	0.000	0.016			
Urban Dev. Action Grants (rescission)	—	-0.030			
Sec.108 loan guarantee; subsidy	0.007	0.000			
Brownfields redevelopment	0.025	0.000			
HOME Investment Partnerships	1.987	2.197			
Homeless Assistance Grants	1.217	1.325			
Samaritan Initiative	—	0.050			
Housing, special populations	1.027	1.025[b]			
Housing for the elderly	*0.776*	*0.774*			
Housing for the disabled	*0.251*	*0.251*			
Housing Counseling Assistance	—	0.045			
Rental housing assistance (rescission)	-0.100	-0.303			

Programs	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Federal Housing Administration (net)[c]	-2.212	-2.359			
GNMA (net)[d]	-0.348	-0.307			
Research and technology	0.047	0.051			
Fair housing activities	0.046	0.050			
Office, lead hazard control	0.175	0.136			
Salaries and expenses	0.527	0.536			
Working capital fund	0.275	0.276			
Inspector General	0.074	0.076			
Office of Federal Housing Enterprise Oversight	0.000	0.000			
Manufactured Housing Offsets	0.000	0.000			
Rescissions; legislative savings; supplemental	-0.008	0.000			
Subtotals:					
Appropriations (current, each cycle)	28.544	28.161			
Rescissions; total	*-1.708*	*-0.633*			
Advance approp. from previous FY	*4.173*	*4.200*			
Advance approp. for following FY	*4.200*	*4.200*			
Subtotal: HUD (net, including advance for current year)[e]	**35.209**	**35.928**			
Total: HUD (net, without advance)	**31.009**	**31.728**			

Source: Preliminary data prepared by the House Committee on Appropriations.

Note: Totals will not add due to rounding. Levels for FY2003 include a 0.65%across-the-board rescission.

[a] The Administration requested direct appropriations of $12.535 billion for FY2004; however, they anticipate the availability of $1.072 billion in unobligated balances, leading to a total program level of $13.607 billion.

[b] The Administration did not request a total amount for special populations, but requests separate amount for the elderly and the disabled.

[c] Net interagency transfers and offsetting receipts against appropriations of the current year, included in the totals are projected experience gains greater than premiums to the mortgage insurance fund, which are now treated as offsetting receipts against discretionary funds. The effect is estimated to be $-2.753 billion for FY2003 and $-2.921 billion for FY2004.

[d] Net, interagency transfers and offsetting receipts against appropriations of the current year.

[e] Includes $4.2 billion in advance appropriations that cannot be spent until the beginning of the year following the fiscal year for which the appropriation is enacted. Amounts shown include advance appropriations of the current year, plus amounts provided by advance appropriations for the following year.

Public and Indian Housing Programs

Project-Based and Tenant-Based Rental Assistance. HUD's low-income rental assistance program, commonly referred to as Section 8, has two components: vouchers (the Housing Choice Voucher (HCV) program); and project-based rental assistance. Vouchers are rental subsidies that eligible families can use to lower their rents in the housing units they choose to live in; project-based subsidies are rental subsidies attached to specific housing developments that are under contract with HUD.

Table 7. Comparison of Existing Housing Voucher Program and HANF Proposal

Housing Choice Voucher Program	HANF
Thirty-three states currently administer a *portion* of the HCV program, but most funds are administered by local PHAs.	States would have the option to administer the whole program, contract all or part to PHAs or not participate. If a state chose not to participate, HUD could administer the program itself or choose another entity to administer the program.
At least 75% of vouchers must be targeted to extremely low income families (30% or below area median income), although the Secretary can change the definition of extremely low income for certain communities.	At least 75% of vouchers would be targeted to extremely low income families (30% or below area median income), although the Secretary would be able to grant waivers to communities as long as at least 55% of vouchers are targeted to extremely low income families.
PHAs currently have the option of setting a minimum rent of *up to* $50 per month.	A minimum rent of *at least* $50 per month would be required for each family.
Initial eligibility for the program is set at the *very low income level* (50% or below area median income), although *PHAs can choose* to expand eligibility *to the* low income level (80% or below area median income) for certain *categories of families they choose*.	Initial eligibility for the program would be set at the *low income level* (80% or below area median income), although the *Secretary could choose* to expand eligibility *above the* low income level for *elderly and disabled families.*
Families cannot pay more than 40% of their incomes toward rent.	Families cannot be required to pay more than 30% of their incomes towards rent but can choose to pay more.
Housing units under voucher contracts must be inspected *annually*.	Housing units under voucher contracts would be required to be inspected *every 3 years*.
An estimated 2 million vouchers are up for renewal in FY2004.	States would be required to make every effort to assist the same number of families under HANF as are currently being assisted under the HCV program.

PHAs are evaluated annually through the Section 8 Management Assessment Protocol (SEMAP) which is a set of 14 criteria established by HUD. If PHAs perform poorly, they may face financial penalties until they improve or may come under receivership.	Each state would be required to make performance evaluation reports to the Secretary on its progress in reaching the goals it has established in an annual plan. If a state is not making sufficient progress, HUD can retake administration of the program.

Source: CRS Report RL31930, *The Housing Choice Voucher Program: Background, Funding, and Issues in the 108th Congress*, by Maggie McCarty.

For several years, funding for these two programs has been provided in one account, called the Housing Certificate Fund (HCF). In FY2003, Congress provided $17.1 billion in direct appropriations for the HCF. For FY2004, the Administration has proposed to abolish the HCF by splitting it into two separate accounts, creating two separate programs: the Housing Assistance for Needy Families (HANF) block grant to states, which would provide vouchers; and the project-based rental assistance program which would remain essentially unchanged.

For HANF, the Administration has requested a total funding level of $13.6 billion for FY2004. This figure includes a direct appropriation of $12.5 billion and $1.1 billion that the Administration estimates will be available from unobligated balances carried over from previous years. For the project-based rental assistance program, the Administration has requested $4.823 billion in new budget authority for FY2004.

What is HANF? The Housing Assistance for Needy Families (HANF) (H.R. 1841, S. 947) program would replace the existing voucher program that is administered by local public housing agencies (PHAs) with a block grant provided to states. In the Administration's FY2004 congressional budget justification, HUD asserts that this proposal would increase the utilization of vouchers, eliminating the large amounts of unobligated balances available for recapture every year, because states would have the flexibility to adjust the program to meet local and regional needs faster than HUD can.

Critics of the proposal, such as the National Association of Housing and Redevelopment Officials (NAHRO), fear that the value of the block grant will erode over time, leaving the program underfunded. They also express concern that states will not have the capacity, because of inexperience with the program and shortfalls in their budgets, to handle the program.

According to the Administration, FY2004 would be a transition year for the HANF proposal, meaning that PHAs would continue to administer the program as usual; the Administration anticipates that the program would be fully implemented in FY2005. Table 7 compares some of the proposed features of HANF to existing features of the HCV program.

For more details on the Housing Choice Voucher Program and the HANF proposal, see CRS Report RL31390, *The Housing Choice Voucher Program: Background, Funding and Issues in the 108th Congress*.

Contract Renewals. Most vouchers and project-based rental assistance subsidies are funded by Congress in 1-year increments. As a result, PHAs enter into 1-year contracts, which come up for renewal every year. The renewal of expiring contracts accounts for the majority of the cost of the Section 8 programs. In FY2003, $10.9 billion was appropriated for the renewal of approximately 1.9 million expiring vouchers (not including administrative funds and central reserve funds) and $4.3 billion was appropriated to renew approximately 817,000 project-based units. These renewal costs accounted for $15.24 billion (or 89%) of the HCF appropriation in FY2003.

In FY2004, the Administration is requesting $11.48 billion for the renewal of expiring vouchers through the HANF program (not including administrative funds or central reserve funds) and $4.72 billion to renew expiring project-based contracts. The Administration estimates that its request will renew approximately 1.9 million vouchers and approximately 870,000 project-based contracts.

Central Reserve Fund. The Secretary can use central reserve funds to supplement the voucher program if PHAs' costs increase. Such cost increases can result either from increases in the average cost per voucher or increases in the average utilization of vouchers. The central reserve fund was created in FY2003 and funded at $389 million. For FY2004, the Administration has requested $609 million for the central reserve fund as a part of its HANF proposal. Of that amount, $100 million would be earmarked for states to use in preparation for full implementation of HANF in FY2005. An additional $36 million from the central reserve fund would be available for incremental vouchers targeted to non-elderly disabled families. The authority to use central reserve funds for new incremental vouchers would be new; currently, central reserve funds cannot be used for new vouchers.

Incremental Vouchers. The term "incremental" is used to describe new vouchers. No new incremental vouchers were provided in FY2003; for FY2004, as described above, the Administration requests the authority to use central reserve funds for new incremental vouchers, including up to $36 million for non-elderly disabled families.

Tenant Protection Vouchers. Tenant protection vouchers are used to relocate families whose subsidized housing units have been demolished, sold or converted to market-rate. These vouchers are also used for families in the Family Unification Program or in the Witness Protection Program. The Administration requested $252 million for tenant protection vouchers in its FY2004 HANF request, which is an increase from the $232 million provided in FY2003. The FY2004 request would fund the same number of vouchers funded in FY2003: 43,300 vouchers. Funding for tenant protection vouchers, like other vouchers, does not include administrative costs.

Administrative Costs. The voucher program is managed at the local level by quasi-governmental bodies called public housing authorities (PHAs); the project-based program is managed by state, local, and private entities called contract administrators. PHAs distribute vouchers, help families find housing, and manage the program accounting; contract administrators oversee the physical and financial health of projects that are under contract with HUD.

Funding for contract administrators in the project-based program is provided separately from funding for PHAs in the voucher program. For the voucher program, HUD requested $1.19 billion for administrative costs in FY2004, as a part of its overall HANF request, an increase from the $1.07 billion provided in FY2003. For the project-based program, HUD requested $100 million for contract administrators in FY2004. This request is a decrease from the $195 million provided in FY2003.

Family Self Sufficiency Coordinators. Family Self Sufficiency (FSS) coordinators help families obtain job training and employment. The FSS program's goal is to decrease families' dependency on public assistance programs and move them towards economic self sufficiency. In FY2003, $48 million was provided for FSS coordinators; in FY2004, $72 million is requested for FSS coordinators.

Unobligated Balances. For several years, unspent funds have accumulated within the HCF. These unspent funds, called unobligated balances, accrue when local PHAs do not spend all of the funds, or use all of the vouchers, they were given in a year. Congress has expressed great concern over this "chronic underutilization." In FY2003, HUD had $2.84 billion in unobligated balances in the Housing Certificate Fund, according to the FY2004 Budget Appendix. Of that amount, HUD expected Congress to rescind $1.1 billion in FY2003. Congress actually rescinded $1.6 billion in FY2003 and required HUD to change the way that it obligated voucher funds in the hopes of reducing future unobligated balances. The remaining $1.24 billion dollars was available for use in FY2003 or could be carried over into FY2004.

In its FY2004 request, the Administration stated that it expected to have $1.37 billion available in unobligated balances. Of that amount, the Administration anticipates that $1.072 billion will be used for vouchers under HANF and $300 million will be rescinded by Congress from the project-based rental assistance program.

However, HUD's estimate of unobligated balances available in FY2004 is no longer current. Since the Administration developed the FY2004 budget request before the FY2003 funding level was enacted, they had to base their estimates on the funding levels they had requested, rather than what they had received. Therefore, the $1.37 billion was estimated using a smaller rescission level and a higher overall appropriation level for the HCF than was actually enacted.

Advance Appropriations. For the past several years, two types of appropriations have been used to fund the Housing Certificate Fund: an appropriation available in the named fiscal year; and an advance appropriation of $4.2 billion, which is not available until the *next* fiscal year. For example, funding for the HCF in FY2003 included:

$12.9 billion in appropriations for use in FY2003; and
$ 4.2 billion in advance appropriations provided in FY2002 for use in FY2003
$17.1 billion in available appropriations (not including unobligated balances) for the HCF in FY2003

Note that the $4.2 billion in advance appropriations that was provided in FY2003 for FY2004 is not included in the total for the HCF in FY2003 shown above. However, it is included in the Administration's FY2004 anticipated budget for HANF:

$ 4.8 billion in appropriations for use in FY2004 (for the project-based program);
$ 8.3 billion in appropriations for use in FY2004 (for HANF); and
$ 4.2 billion in advance appropriations provided in FY2003 for use in FY2004
$17.3 billion in available appropriations (not including unobligated balances) for HANF and the project-based rental assistance program in FY2004

The advance appropriation structure was adopted again in the FY2004 budget request. For FY2004, the Administration requested $4.2 billion in advance appropriations (to be spent in FY2005) for HANF.

Table 8 shows a breakdown of funding for the vouchers and project-based programs.

Table 8. Budget Authority for Vouchers and Project-Based Rental Assistance; FY2003 and FY2004

($ in billions)

	FY2003 enacted[a]	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Budget authority: Vouchers/HANF	**12.604**[b]	**13.607**[c]			
New appropriations	*12.604*	*12.535*			
Advance approp.from prior year	*(4.172)*	*(4.200)*			
Current-year appropriation	*(8.431)*	*(8.335)*			
Budget authority available from unobligated balances	*2.838*	*1.072*[d]			
Budget authority rescinded or not expected to be used	*-2.838*[e]	*0*			
Breakdown: Vouchers/HANF	**12.604**	**13.607**			
Contract renewals	*10.870*	*11.482*			
New incremental vouchers	*0.000*	*0.036*			
Tenant protection vouchers	*0.232*	*0.252*			
Administrative fees	*1.065*	*1.192*			
Central reserve fund	*0.389*	*0.473*			
HANF start-up costs for states	*0.000*	*0.100*			
Fam. self sufficiency coordinators	*0.048*	*0.072*			

	FY2003 enacted[a]	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Budget authority: Project-based rental assistance	**4.507**	**4.823**			
New appropriations	*4.507*	*4.823*			
Budget authority available from unobligated balances	*0*	*0.300*[f]			
Budget authority rescinded or not expected to be used	*0*	*-0.300*			
Breakdown: Project-based rental assistance	**4.507**	**4.823**			
Project based vouchers	*4.309*	*4.720*			
Contract administrators	*0.195*	*0.100*			
Working capital fund	*0.003*	*0.003*			
Combined Funding Level: Tenant-based and Project-based	**17.111**	**18.430**			

Source: This table was prepared by CRS using data from the FY2003 Consolidated Appropriations Conference Report (Rpt. 108-10) and the HUD FY2004 Congressional Justifications.

[a] The FY2003 numbers reflect an across the board rescission of .65% enacted in FY2003.

[b] This amount does not include $4.2 billion in advance appropriations provided in FY2003 for use in FY2004. The $4.2 billion provided in FY2003 for use in FY2004 is included in the next column under "advance appropriations from previous year."

[c] This amount does not include $4.2 billion in advance appropriations requested in FY2004 for use in FY2005.

[d] The Administration assumes a recapture of $1.072 billion in unobligated funds from HANF and has therefore requested an appropriation of $1.072 billion less than their actual needs; however, Congress has historically considered the actual needs as the request for new budget authority while rescinding unobligated balances. The Administration's estimate of unobligated balances may not be accurate (see earlier discussion of unobligated balances).

[e] In FY2003, $2.838 billion was available in unobligated balances, according to the FY2004 HUD Budget Appendix. Of this amount, Congress rescinded $1.6 billion. The FY2003 appropriations bill conference report stated that any unobligated balances in excess of the $1.6 billion necessary to meet the rescission would be available to the Secretary. However, the conferees provided more than the Secretary had requested for the HCF in FY2003, so one could assume that the Secretary would not need to use any unobligated balances in FY2003. (See earlier discussion of unobligated balances.)

[f] Based on the FY2004 HUD budget justification, this table allocates $300 million of the unobligated balances from the Housing Certificate Fund to the project-based rental assistance program. The Administration's estimate of unobligated balances may not be accurate (see earlier discussion of unobligated balances).

Public Housing Programs. The public housing program was designed to provide safe, decent and affordable housing to low-income families. While no new public housing developments have been built for many years (except through the HOPE VI program, which is discussed below), Congress continues to provide funds to maintain the existing stock of over 1.2 million units. (HUD defines "affordability" as requiring a family to pay no more than 30% of its adjusted income for rent.)

Public Housing Operating Fund. The Public Housing Operating fund provides subsidies to local PHAs for public housing operating expenses, including maintenance, utilities and tenant and protective services. These subsidies allow PHAs to keep rents affordable for very low-income families.

For FY2004, the Administration requested $3.57 billion for the Operating Fund, which is less than the $3.58 billion provided in FY2003. Of the amount requested for FY2004, $15 million would be set aside for the Resident Opportunities for Self Sufficiency (ROSS) program. The ROSS program provides residents with supportive services and assistance in becoming economically self-sufficient.

A Note About the Operating Fund Shortfall From FY2002. In FY2002, HUD did not have enough operating funds to provide full subsidies to all PHAs. HUD was short $250 million because it had been miscalculating how much it needed for the Operating Fund for several years. In past years, HUD would cover the shortfall by automatically dipping into future years' appropriations without requesting advance approval from Congress. However, HUD was unable to automatically dip into its FY2003 appropriation to cover its FY2002 shortfall because the agency was operating under a series of short-term continuing resolutions.

Instead, HUD had to ask Congress' permission to use funds from FY2003 to cover FY2002. Congress granted HUD that permission, but Congress did not increase HUD's FY2003 appropriation to compensate for the $250 million that was used for FY2002. Since the FY2003 Operating Fund was effectively reduced, HUD had to reduce PHAs' operating budgets. HUD instructed PHAs to reduce their budget requests by 30%, but informed them that their budgets may be adjusted again later in the year (See HUD Notice PIH 2003-1, released in January 2003). HUD has since adjusted PHA budgets to close to 90% (a final cut of approximately 10%).

A Note About Calculating Operating Subsidies. The Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276) directed HUD to develop a new formula for allocating operating funds to the PHAs. However, developing this new formula is proving difficult and controversial. An interim formula-based approach for allocating operating funds was implemented in FY2001, following regulatory negotiations required by the 1998 Act. The current formula takes into account size, location, age of housing stock, occupancy and other factors intended to reflect the cost of operating a well-managed public housing development. HUD hopes to complete action on a permanent formula during FY2003.

Public Housing Capital Fund. The Public Housing Capital Fund provides money to PHAs for the rehabilitation and modernization of public housing. Regular physical maintenance ensures that these developments are not unsafe for residents and do not become so obsolete that they must be demolished. HUD estimates that there is a backlog of $20 billion in rehabilitation and modernization needs facing public housing and that an additional $2.2 billion in capital needs accrue annually.

The HUD budget requests $2.64 billion for the capital fund in FY2004, less than the $2.71 billion enacted in FY2003. The justification for this cut in the face of such a large backlog is the introduction of what the Administration terms the Public Housing Reinvestment Initiative (PHRI) and Loan Guarantee. Under this proposal, HUD would consider requests from PHAs to participate in this initiative on a property by property basis. The program would include leveraging of private capital through a combination of loan guarantees and the conversion of public housing units to project-based voucher assistance. For loan guarantees, this proposal would set aside $131 million in public housing capital funds, which could partially guarantee (up to 80%) $1.7 billion in loans to pay for capital improvements to public housing. The conversion of public housing to project-based vouchers is designed to make PHAs seem more credit-worthy.

The Administration contends that lenders will view project-based voucher funding as a more predictable stream of income than capital fund appropriations. Furthermore, the Administration thinks that converting public housing to project-based vouchers would benefit families. Families with project-based vouchers have the ability to convert their project-based vouchers to portable tenant-based vouchers after 1 year.

Therefore, families who used to be tied to public housing but who convert to project-based and then to tenant-based vouchers, would be able to move to the housing of their choice. Legislation to enact this proposal has not been introduced in the 108th Congress. A similar proposal was offered by the Administration in FY2003, but was not adopted.

Critics of the Administration's PHRI proposal argue that many PHAs already successfully participate in private financing without converting public housing to vouchers. They are concerned that converting public housing units to vouchers would essentially privatize public housing and further deplete the nation's stock of low-cost housing.

In addition to the $131 million for the PHRI, the Administration has requested the following set-asides in the Capital Fund for FY2004: $40 million for ROSS, $40 million for the emergency disaster reserve, $10 million for the working capital fund, $50 million for technical assistance and $30 million for the demolition of obsolete public housing units.

HOPE VI Revitalization of Distressed Public Housing. HOPE VI funds the demolition and revitalization of deteriorated and distressed public housing. Since the inception of the HOPE VI program, HUD has approved the demolition of approximately 115,000 units of distressed public housing and the creation of over 66,000 rental and homeowner units. New housing created by HOPE VI must have a mixed-income tenancy — the poor, the not quite so poor, and some moderate-income households — in an effort to change the culture and eliminate the stigma of public housing. Authorization for the program ended at the end of FY2002; it was extended in FY2003 through the end of FY2004. The House Financial Services Committee reported H.R.1614 (H.Rept. 108-165) to revise and reauthorize the HOPE VI program through FY2005.

For FY2004, the Administration requested no new funding for the HOPE VI program, which was funded at $570 million in FY2003. The Administration argues that the program does not need new funding for two reasons. First, the program's goals have largely been accomplished. Second, the program has some problem areas. One major problem with the HOPE VI program is the amount of time it takes to complete a project. Of the 195 projects funded since 1992, only 16 are completed and only half of the obligated funds have been spent. Another problem with the HOPE VI program is the displacement of former residents. Few families whose units have been demolished under HOPE VI come back to live in the revitalized housing and little is known about what happens to them.

Despite these concerns, the HOPE VI program is one of the most popular programs under HUD's jurisdiction. Many advocacy groups and Members of Congress have spoken out on behalf of the program. They argue that need for the program is still great and that instead of ending the program, HUD should work with Congress to improve it so that it can continue to transform the most distressed public housing in the nation.

Native American Block Grants. This block grant program provides tribes or tribally designated housing entities with a flexible source of funding for low-cost housing and related activities. As provided in the Native American Housing Assistance and Self-Determination Act (P.L. 104-330), block grant funds may be used for a wide range of homeownership and rental activities. The Administration's FY2004 budget requests $647 million, $2 million more than enacted in FY2003.

With unemployment that often exceeds 80% in many Indian and Native communities, the Senate Appropriations Committee report for FY2003 (S.Rept.107-222) directed HUD and its grantees to give primary consideration to qualified Native owned firms in the design and construction of Indian housing.

Community Planning and Development

Housing for Persons with AIDS (HOPWA). President Bush requested $297 million for the HOPWA program for FY2004, up from the $290 million enacted in FY2003.

HOPWA provides housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Funding is distributed both by formula allocation and competitive grants to states, localities and nonprofit organizations. HOPWA funds may be used for housing information services, resource identification to establish and coordinate housing assistance resources, to acquire, rehabilitate or lease housing and services, to construct single room occupancy dwelling and community residences, for rental assistance and for short term rent. Funds may also be used for mortgage or utility payments to prevent homelessness of a tenant or mortgagee and for supportive services including health, mental health, drug and alcohol abuse treatment and counseling, day care, nutritional services and assistance in gaining access to local, state and federal government benefits.

In an evaluation released by HUD in December 2000, it was reported that the HOPWA program predominately serves extremely low-income (54%) and very low-income (27%) persons living with HIV/AIDS, and that in 1999 the HOPWA program was providing housing assistance to approximately 49,000 low-income persons living with HIV or AIDS. This was approximately one-sixth of the estimated 311,701 persons living with AIDS in the United States as of June 2000 as reported by the Centers for Disease Control and Prevention (CDC). The CDC reported that through

June 2001, the number of HIV infections reported in states with confidential HIV reporting (34 states and two territories) was 134,505 for a cumulative total of 466,023 persons identified as being HIV positive or of having AIDS. Since many states are not yet reporting on HIV, the CDC estimates that 800,000 to 900,000 Americans are actually living with HIV or AIDS.

For more information on HOPWA, see CRS Report RS20704, *Housing Opportunities for Persons with AIDS (HOPWA)*.

Rural Housing and Economic Development. The FY1999 HUD Appropriations Act (P.L. 105-276) established within HUD an Office of Rural Housing and Economic Development to support housing and economic development in rural areas. Congress provided $25 million in each of FY2001 and FY2002, and just short of $25 million in FY2003. However, the Administration did not request funds in FY2002 and FY2003, and does not do so for FY2004, arguing that many of the agency's core programs, such as CDBG, already serve rural communities, and because other Departments like the U.S. Department of Agriculture have very large and effective programs already in place to address rural housing and economic development issues. However, both the House and Senate Appropriations Committees have continued to appropriate funds in recent years, apparently concluding that this housing program is sufficiently different from Department of Agriculture programs to merit separate appropriations.

Empowerment Zones and Enterprise Communities. Spendouts have been much slower than projected for these programs. The Administration proposed no funding for Empowerment Zones/Enterprise Communities (EZs/ECs) for FY2003 (although Congress appropriated close to $30 million) and proposes no funding for FY2004, concluding that this program has not been sufficiently effective.

This initiative is an interagency effort to promote economic development and community revitalization in distressed areas, by directing tax relief and federal funds to designated EZs and ECs. EZs and ECs are eligible for a variety of tax credits and other incentives intended to stimulate investment, economic growth, and revitalization activities. Grants are used for activities that assist residents and businesses, including workforce preparation and job creation efforts linked to welfare reform; neighborhood development; support for financing capital projects; financing of projects in conjunction with Section 108 loans or other economic development projects. Funds are also used for rental assistance and other housing assistance.

To date, there have been three rounds of EZ/EC designations. In the first round, nine communities (six urban and three rural) were designated as Empowerment Zones; and 95 communities were named as Enterprise Communities. Twenty new Empowerment Zones — 15 urban and five rural — were designated in the Round II competition, along with 20 new Enterprise Communities, all rural. The Community Renewal Tax Relief Act of 2000 (P.L. 106-554) authorized the designation of 40 renewal communities (28 urban and 12 rural) and nine new Round III Empowerment Zones (seven urban, two rural) designated on December 21, 2001, which utilize only tax incentive provisions.

In FY2002, $45 million was approved for urban EZs — $3 million each for the 15 Round II zones designated by HUD. The Administration's FY2003 budget proposed no funding for Round II Empowerment Zones because after 4 years of funding, major balances of unused funds had been built up. To help develop the economies of distressed urban and rural areas, HUD has recently designated 40 Renewal Communities (RZs) and seven additional Round II urban Empowerment Zones. Private investors in both RZ and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations.

P.L. 108-7 included $30 million for Round II EZ-designated communities with $2 million allocated to each of the 15 empowerment zone communities. Both the Senate and House recommended an appropriation of $30 million for this program for FY2003, $15 million less than enacted for FY2002 and $30 million more than the President's budget requested. The conference report (H.Rept. 108-101) argued that, consistent with Round I empowerment zone funding, this program should be classified as mandatory spending rather than an obligation of the VA-HUD appropriations bill. During its consideration of the bill, the Senate Appropriations Committee also expressed concern over accountability in this program and noted that the HUD Inspector General has been critical about how communities have implemented this program and used EZ funds.

Community Development Block Grants

Background. The Community Development Block Grant (CDBG) program is the largest source of federal financial assistance in support of state and local governments' community development and neighborhood revitalization activities. The program was first authorized by Congress under Title I of the Housing and Community Development Act of 1974, P.L. 93-383, and now stands as the federal government's longest running block grant.[2]

During its 29-year history the program has undergone some changes, but its structure and focus have remained essentially unchanged. The program promotes local decision making in the development of community development plans intended to principally benefit low- or moderate- income persons, aid in preventing or eliminating slums and blight, or meeting urgent needs threatening the health and safety of the public. CDBG funds are allocated by formula to 1,082 entitlement communities, states, and the Commonwealth of Puerto Rico. After funds are set aside to fund a number of related categorical programs, 70% of the remaining funds appropriated are allocated by formula to CDBG entitlement communities while states share the remaining 30%.

FY2004 Funding Proposal. The Bush Administration's FY2004 budget proposes $4.732 billion for the Community Development Fund (CDF), which includes CDBG formula grants to states and entitlement communities and related programs. The Bush Administration's budget request includes $295.5 million for program set-asides, and $4.436 billion in CDBG formula-based grants to entitlement communities and states. The Administration's budget request would increase the

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[2] 42 U.S.C. 5301.

formula-based portion of the program by $96.5 million for FY2004 and it would convert Section 107 funding for insular areas into a formula-based allocation. The Administration's budget does not include funding for Neighborhood Initiative or Economic Development Initiative grants, two categorical programs that recently have been used exclusively to fund congressionally earmarked projects.

The following table provides a breakdown of the actual FY2003 appropriations and the FY2004 proposed budget request for the CDF account.

Table 9. Community Development Fund Appropriations, CDBG and Related Set Asides: FY2003-FY2004

(funding in millions)

Programs and set-asides	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Subtotals:					
Set-asides (see below for details)	*565.4*	*280.0*			
Formula-based (entitlement communities)	*3,037.6*	*3,100.3*			
Insular areas	*0.0*	*7.0*			
Formula-based (state allocation)	*1,301.9*	*1,328.7*			
Set-asides:					
Indian Tribes	*70.5*	*72.5*			
Economic develop. access center	*0.0*	*0.0*			
Housing Assistance Council	*3.3*	*3.0*			
National American Indian Housing Council	*2.4*	*2.2*			
Nat. Council of La Raza HOPE Fund	*5.0*	*0.0*			
Technical assistance	*(0.5)*	*(0.0)*			
HOPE Fund, other activities	*(4.5)*	*(0.0)*			
Section 107	*48.8*	*37.9*			
Technical assistance	*0.0*	*(3.0)*			
Insular areas	*(7.0)*	*(0.0[a])*			
Prog. management and analysis	*0.0*	*(3.0)*			
Hawaiian Homelands	*(9.5)*	*(0.0)*			
University Programs	*(32.3)*	*(31.9)*			
Historically Black Colleges & Universities	*(9.9)*	*(10.0)*			
Hispanic Serving Institutions	*(6.4)*	*(5.5)*			
Community Development Work Study	*(3.0)*	*(3.0)*			

Programs and set-asides	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Alaskan Native and Native Hawaiian Serving Institutions	*(3.0)*	*(2.4)*			
Tribal Colleges and University	*(3.0)*	*(3.0)*			
Comm. Outreach Partnership	*(7.0)*	*(8.0)*			
Working Capital Fund for the development of information technology systems	*3.4*	*4.9*			
Wellstone Center for Community Building	*8.9*	*0.0*			
Self-Help Homeownership Opportunity	*25.1*	*65.0*			
Capacity building	*(0.0)*	*(3.0)*			
National Housing Development Corporation	*5.0*	*0.0*			
Operating expenses	*(2.0)*	*(0.0)*			
Capacity Building, Comm. Develop. & Affordable Housing	*28.1*	*25.0*			
Nat'l Comm. Develop. Initiative (NCDI)[b]	*(23.1)*	*(20.0)*			
Rural area and tribal lands[c]	*(5.0)*	*(5.0)*			
Habitat for Humanity	*4.2*	*4.5*			
Neighborhood Initiative Demonstration	*41.8*	*0.0*			
Youthbuild	*59.6*	*65.0*			
Youthbuild in rural and underserved areas	*(10.0)*	*(10.0)*			
Youthbuild USA capacity building	*(2.0)*	*(2.0)*			
Economic Development Initiative	*259.3*	*0.0*			
Total: CDF, CDBG	**4,904.9**	**4,716.0**			

Source: U. S. Dept. of Housing and Urban Development.

Note: Totals may not add due to rounding. Italics indicates entries subsumed under CDBG line in **Table 6**; parenthesis indicates entry subsumed in this table under summary line immediately above.

[a] Insular areas would be included in formula portion of the CDBG program and would not be included as a set aside under Section 107 (Special Purpose Grants).

[b] Includes funding for the Enterprise Foundation and the Local Initiative Support Corporation in support of local community development corporations.

[c] The $5 million for NCDI for rural areas and tribes is a set-aside within the program. HUD is required to allocate $5 million of the $25 million to these areas.

Within the context of HUD's total budget request for FY2004, the Administration proposes to allocate 15% ($4.7 billion) of the HUD proposed $31.1 billion budget to programs funded under the CDF account. Within the CDF account, CDBG formula grants to the states and entitlement communities would account for 93.6% of the CDF budget request while set-asides and earmarks would account for 6.4% of the request.

The Administration is also requesting $16 million in funding for its *Colonias* Gateway Initiative (CGI), a proposal that was first included in its FY2003 budget request within the Community Development Fund but is proposed for FY2004 as a separate program. This southwest regional initiative would be targeted to communities in Texas, New Mexico, Arizona, and California within 150 miles of the border with Mexico. Funds would be used for housing, infrastructure, and economic development projects in these distressed areas.

Earmarks and Set-Asides. The Administration's proposed increase in entitlement funding and its *Colonias* Gateway Initiative are to be offset by eliminating funding for two CDF-related set-asides, notably, the Neighborhood Initiative (NI), which received $42 million for FY2003, and the Economic Development Initiative (EDI), which received $259 million in FY2003. In the recent past, both programs have routinely been used by some Members of Congress to earmark funding for specific projects. Organizations representing entitlement communities and states, along with this and previous Administrations, have objected to these earmarks on the grounds that they are noncompetitive, and reduce the amount of funds available under the formula portion of the CDBG program for distribution to entitlement communities and states.

For FY2003, EDI assistance was earmarked for more than 850 specific projects identified in the conference report (H.Rept. 108-10) accompanying the FY2003 Consolidated Appropriations Act, P.L. 108-7. The NI grants support projects intended to stimulate economic diversification and investment in areas experiencing population out-migration, improve conditions in blighted and distressed neighborhoods, or facilitate the integration of housing assistance with welfare reform initiatives.

For FY2003, the $565 million used to fund CDBG-linked categorical programs represented 11.5% of the $4.9 billion appropriated under the Community Development Fund account, compared to 6% of the Administration's CDF budget proposal for FY2004. The $301.1 million in combined FY2003 appropriations for NI and EDI grants represent more than half of the $565 million Congress appropriated for CDBG-linked set-asides and earmarks. As noted earlier, the Administration has requested no funding for these two programs for FY2004.

Brownfields Redevelopment. The Administration does not request funding for the Brownfields Redevelopment Program in FY2004, citing ineffective performance. In the past several years this program has been funded as a separate line item in the budget at or close to $25 million. But because of lower than expected interest in the program, slow expenditures of funding, and very lengthy time-frames to produce actual results, the Administration recommends that the program be transferred to the Environmental Protection Agency and combined with its brownfield program. The Administration also points out that the redevelopment of brownfields can occur through the use of Community Development Block Grant funds.

Brownfields redevelopment funds are used to reclaim abandoned and contaminated commercial and industrial sites. Administration estimates place the number of eligible brownfield sites at 450,000 nationwide. Funds are used to finance job creation activities that benefit low and moderate income persons, and funds have been used in conjunction with Section 108 loan guarantees and with EPA brownfields cleanup efforts. In HUD's FY2003 budget, the agency supported decoupling the brownfields program from the Section 108 loan guarantee program, believing that this would attract more participants.

During the 107th Congress, the House approved legislation, the Brownfield Development Enhancement Act (H.R. 2941), that would no longer require that communities receive Section 108 loan guarantees as a condition for the receipt of Brownfield Economic Development Funds, a decision that could make it easier for communities to gain access to brownfield funding. However, P.L. 108-7 included a $25 million appropriation for brownfield projects, maintaining the program's present structure — which requires that funds must be used in coordination with CDBG Section 108 loan guarantees. In addition, the Act requires that HUD award such funds on a competitive basis.

The HOME Investment Partnership Program. For FY2004, the Administration requests $2.197 billion for the HOME Program, $210 million more than enacted in FY2003.

The HOME block grant program makes funds available to participating jurisdictions to increase the supply of low-cost rental housing and homeownership opportunities for low-income families. Jurisdictions have considerable flexibility in the use of these funds but all households assisted must have incomes below 80% of the area median, and 90% of renters receiving assistance must have incomes below 60% of the median. Funds can be used to help new homebuyers. Both homebuyers and renters can be helped through the rehabilitation of substandard housing and new construction. Funds may also be used for tenant-based rental vouchers. Some HOME funds are used with the HOPE VI program and with the Low-Income Housing Tax Credit. According to HUD budget documents, since its beginning in 1992, HOME funds have been used to construct or rehabilitate more than 250,000 rental units, and have provided direct rental assistance (vouchers) to more than 73,000 households.

The Administration requests a $200 million set-aside within HOME for the "American Dream Downpayment Initiative" (H.R. 1276; H.Rept. 108-64) to assist first-time low-income homebuyers with downpayments for the purchase of their first home. The same amount was requested in the FY2003 budget and $75 million was enacted. The Administration notes that the downpayment is often the most significant obstacle to homeownership and that the program is expected to help 40,000 homebuyers with assistance for their downpayments and closing costs.

The Administration requests that Housing Counseling Assistance be funded at $45 million, an increase of $5 million over the FY2003 level. Instead of being funded within the HOME program, the Administration is requesting that counseling be funded in a new free-standing appropriation account under the Housing Programs section of the HUD budget. The same program change was requested in the FY2003 Budget, but Congress voted to keep the counseling program within the HOME program.

The Administration regards counseling as an important part of advancing its goal of increasing homeownership and also notes the importance of rental counseling. The Budget estimates that the proposed funding would provide 550,000 families with home purchase and homeownership counseling and provide 250,000 families with rental counseling. An increased emphasis would be placed on providing counseling through the funding of national and regional intermediary organizations, and an increased percentage of funds would be awarded to such organizations.

The Administration also is proposing a new Innovative Lead Hazard Demonstration program as a $25 million set-aside within HOME to eliminate lead-based hazards in homes of low-income children. This would be used to help develop creative ways of identifying methods of eliminating lead-based paint hazards that could serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows.

Homeless Assistance Grants. Homeless Assistance Grants is the blanket title given to the four homeless programs authorized by the Stewart B. McKinney Homeless Assistance Act of 1987 (P.L. 100-77) and administered by HUD. Three of the four programs are competitive grant programs: the Supportive Housing Program (SHP), the Shelter Plus Care program (S+C) and the Single Room Occupancy program (SRO). Funding for the fourth HUD program, the Emergency Shelter Grants program (ESG), is distributed via a formula allocation to states and local communities.

For FY2004, the Administration has proposed consolidating the competitive Homeless Assistance grants into one consolidated competitive program; the ESG program would remain a formula allocation. The Administration has requested $1.33 billion for homeless assistance in FY2004. This would be an increase over the $1.217 billion for homeless assistance grants provided in FY2003. The amount requested for FY2004 would include: $150 million for the ESG program, $194 million for S+C renewals, $12 million for technical assistance (including homeless management information systems — HMIS), $2.6 million for the Working Capital Fund and $1.5 million for the Interagency Council on Homelessness.

The Administration has proposed that the Emergency Food and Shelter program (EFSP), which is currently administered by the Federal Emergency Management Agency (FEMA), be transferred from the Department of Homeland Security to HUD in FY2004. This transfer was proposed in the FY2003 budget, but was not adopted. For FY2004, $153 million was requested for the EFSP.

The Administration's FY2004 budget also requests $50 million for a new Samaritan Housing program. This program, which would be conducted in conjunction with the Departments of Health and Human Services and Veterans Affairs, would focus on the chronic homeless population through aggressive outreach. Both the Secretary of HUD and the President have made a commitment to end chronic homelessness in 10 years. The Administration states it will submit legislation to amend the McKinney-Vento Homeless Assistance Act of 1987 to include the Samaritan Housing program.

The homeless assistance programs are intended to help homeless persons and families break the cycle of homelessness and move to permanent housing and self-sufficiency. HUD's Continuum of Care (CoC) process encourages the creation of linkages to other housing and community development programs including public housing, Section 8, Community Development Block Grants, HOME, Housing Opportunities for Persons with AIDS, and state and local programs. In addition, the strategy promotes direct links to mainstream social service programs critical to the success of homeless assistance efforts, such as Medicaid, State Children's Health Insurance Program, Food Stamps, Temporary Assistance for Needy Families (TANF), and services funded through the Mental Health and Substance Abuse Block Grant, Workforce Investment Act, and the Welfare-to-Work grant program.

Housing Program Administration

Housing for the Elderly and Disabled. These programs, referred to as the Section 202 program for the elderly and the Section 811 program for the disabled, provide capital grants for the development of additional new subsidized housing for these populations. The President proposed funding of $774 million (for a total of $783 million, including the reprogramming of $9.7 million in unobligated funds from previous years) for housing assistance for the elderly in FY2004, the same amount as requested in the previous year. $776 million was provided as direct appropriations in FY2003.

HUD points out that an increasing number of the elderly living in Section 202 apartments have become frail and less able to live in rental facilities without some additional services. Therefore, the Administration has proposed that $30 million of the appropriated amount be made available for construction grants to convert existing Section 202 units to assisted living facilities. This would allow individual elderly residents to remain in their units and maintain their independence as they age. The President proposed that another $53 million of the appropriation be used to fund service coordinators who help elderly residents obtain needed supportive services from the community. Finally, the Administration proposes to transfer $470 thousand of the amount to the Working Capital Fund.

The Administration expressed concern in its FY2004 budget justification about the length of time it takes to develop a Section 202 property and the high cost of developing Section 202 units relative to private units. HUD stated that it would examine the program and propose changes to improve its performance to address the aforementioned concerns.

The Administration also requested $251 million for housing for the disabled (Section 811), which is the same level at which the program was funded in FY2003. Like last year, up to 25% of the funds for the disabled could be used for vouchers to give disabled individuals more flexibility and choice so they could live in mainstream rental housing.

Like the Section 202 program, the Section 811 program was cited in the FY2004 budget justification as needing reform. Out of concern regarding how slowly grantees spend Section 811 funds, the Administration included in its justification a list of program reforms, which it intends to pursue in FY2004. They include: coordinating Section 811 funded vouchers with the Administration's HANF proposal; expanding the eligible uses of Section 811 funds; giving preference to applicants who leverage funds from other sources; providing a preference for smaller-scale projects; rewriting the regulations to streamline the program; and requiring grantees to use funds in a timely manner or face recapture.

Federal Housing Administration (FHA). The FHA is an insurance program that makes homeownership possible for individuals and families who lack the savings, credit history, or income to qualify for a conventional home loan. HUD reports that in 2003, FHA insured $120 billion of mortgages for 1.3 million households, 700,000 of them first-time homebuyers. Thirty-seven percent (260,000) were minority households. The insurance premiums (receipts) paid by homebuyers (or those refinancing a mortgage) pay the cost of the principal program of the FHA program, the Mutual Mortgage Insurance (MMI) account, although spending of these receipts is subject to annual appropriations acts.

Since the early 1990s, the MMI program has contributed a substantial surplus of funds to the federal government, and will add an estimated $2.9 billion in FY2004. Since FY2002, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) have determined that FHA receipts under the MMI account should be classified within the discretionary rather than the mandatory part of HUD's budget. According to CBO, the reclassification has no effect on the amount of budgetary resources available to HUD, and the MMI program will continue operating as it did prior to the reclassification. Mandatory spending must comply with the pay-as-you-go rules of the Budget Enforcement Act (BEA) (P.L. 101-508), while discretionary spending must comply with the BEA's discretionary spending caps.

For FY2004, the Administration requests a commitment to insure up to $185 billion under the FHA Mutual Mortgage Insurance and Cooperative Housing Mortgage Insurance (MMI/CHMI) fund, an increase of $20 billion over the level approved for FY2003.

The Administration says it will propose legislation that would permit FHA to insure loans to borrowers that, due to poor credit ratings, would not ordinarily qualify for FHA-insured loans. Such borrowers would either be unable to obtain loans, or would obtain loans at higher interest rates on the sub-prime mortgage market. Under the proposed initiative, borrowers would also be able to obtain FHA-insured loans to help them keep their present home or for home purchase. The proposal is projected to generate loans for an additional 62,000 homes.

The Administration requests a $25 billion insurance commitment limitation for the General Insurance and Special Risk Insurance (GI/SRI) fund, an increase of $1 billion over the level as approved for FY2003.

The Budget requests a loan limitation of $50 million for direct loans under the MMI/CHMI fund, a $50 million reduction from the FY2003 level. The Administration also proposes a direct loan limitation of $50 million for the GI/SRI fund, the same limit as in FY2003. The direct loans are used to facilitate the sale to municipalities and nonprofit corporations of single family and multifamily properties that have been acquired by the FHA insurance funds through defaults and foreclosures by borrowers.

The Budget requests administration expenses of $359 million for the MMI/CHMI accounts, an increase of $13 million over the FY2003 level. The Budget requests administration expenses of $229 million for the GI/SRI accounts, an increase of about $7 million over the FY2003 level.

The FY2004 Budget requests an appropriation of $15 million for credit subsidies to support loan guarantees under the GI/SRI programs, approximately the same level as appropriated for FY2003. The credit subsidy is based on the net cost to the government, exclusive of administrative expenses, of a direct loan or loan guarantee over its full term, discounted to the present value at the Treasury's borrowing cost.

The Administration proposes to reduce the annual mortgage insurance from 57 basis points to 50 basis points on the Section 221(d)(4) multifamily rental housing projects. HUD estimates that the program will produce 42,000 new rental housing units annually, and that most of them will be affordable to moderate-income families.

Office of Federal Housing Enterprise Oversight (OFHEO). HUD has oversight responsibilities for establishing Fannie Mae's and Freddie Mac's affordable housing goals and for monitoring their progress toward achieving those goals. Within HUD, OFHEO is the "safety and soundness" regulator for the Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac. The FY2004 budget proposes $32.4 million in budget authority for the operation of OFHEO.

For FY2004, OFHEO intends to expand and be more aggressive in its oversight activities, including: reviewing GSE requests for approval of new programs; ensuring that the GSEs are consistent in their adherence to fair housing laws; providing an annual public use database on the GSEs' mortgage purchases — and reports and research on GSE activities; and the setting, monitoring and enforcement of GSEs' goals for the purchase of mortgages made to low- and moderate-income families, and mortgages on properties located in underserved areas.

In FY2003, legislation was proposed to remove OFHEO from the annual appropriations process and fund the organization directly. The idea was to place OFHEO on a par with other safety and soundness regulators such as the Federal Reserve Board, the Office of Thrift Supervision, and the Federal Housing Finance Board. P.L. 107-8 provided close to $30 million for OFHEO, to be funded by fees from Fannie Mae and Freddie Mac. HUD was directed to provide a detailed report to the Committee on Appropriations by August 15, 2003, detailing OFHEO's current staffing levels and corresponding responsibilities, and whether this is adequate to fully meet its regulatory mission.

Fair Housing. The Fair Housing Act makes it illegal to discriminate in the sale, rental, or financing of housing based on race, color, religion, sex, national origin, disability, or family status. HUD's FY2004 budget reiterates the Administration's commitment to fight against housing discrimination, and requests $50 million for its two fair housing programs, nearly 10% above FY2003 funding of $45.6 million.

The **Fair Housing Assistance Program (FHAP**) strengthens nationwide enforcement efforts by providing grants to state and local agencies to enforce laws that are substantially equivalent to the federal Fair Housing Act. It provides grants awarded annually on a noncompetitive basis. For FY2004, HUD is requesting $29.7 million for FHAP.

The **Fair Housing Initiatives Program (FHIP)** provides funds for public and private fair housing groups, as well as state and local agencies, for activities that educate the public and housing industry about the fair housing laws, including accessibility requirements; investigate allegations of discrimination; help to combat predatory lending practices, and reduce barriers to minority homeownership. FHIP would be funded at $20.3 million in FY2004.

The FHIP program for FY2004 is structured to respond to the findings of the 3-year National Discrimination Study and related studies, and will continue to support five special initiatives: Combating Predatory Lending includes support of programs to increase financial literacy. Education Outreach includes a major education and public awareness campaign to make individuals more aware of their rights and responsibilities under the Fair Housing Act. Fair Housing in the Colonias is intended to help residents in the Colonias (areas within 150 miles of the Texas/Mexican border), many of whom are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in these areas. Faith-Based and Community Partnerships emphasize the participation of faith-based and community partners, recognizing the significant impact they can have on the implementation of fair housing laws. Accessibility for Persons with Disabilities is an important Departmental priority within FHIP that promotes training for architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act.

Lead-Based Paint Hazard Reduction. HUD is proposing $136 million for the Lead-Based Paint Hazard Control Program for FY2004, $39.9 million or 22% less than the $174.9 million enacted for FY2003. As noted above under the HOME program, there also is a new Innovative Lead Hazard Demonstration program proposed as a $25 million set-aside within HOME to eliminate lead-based hazards in homes of low-income children.

Title X of the Housing and Community Development Act of 1992 (P.L. 102-550), authorized HUD to establish the Lead-Based Paint Hazard Control Grant program, to eliminate lead paint hazards in homes that are at risk of not being modified through normal renovation or demolition activities. Before 1997, funding for the lead hazard control grant program was provided under the Annual Contributions for Assisted Housing Account. In 1997 and 1998, the program was funded as a set-aside under the Community Development Block Grant account. Since 1999, the program has received appropriations as a separate, stand-alone program. Funds are distributed through competitive grants to entities that agree to match those federal grants.

Over the past decade, HUD has worked with local governments and agencies to increase the number of lead hazard control programs, and, viewed nationally, measurable lead levels in children have declined. However, millions of housing units occupied by lower income households remain contaminated with lead-based paint.

The House Committee on Appropriations recommended $126 million for the program in FY2003, the same $16 million increase requested by the Administration. Citing lead poisoning from lead-based paint as the highest public health threat to children under the age of 6, the Senate Committee on Appropriations recommended $201 million for the program for FY2003, $75 million more than requested by the Administration and $91 million more than enacted for FY2002. While the committee reported dramatic reductions in lead hazards in low-income public housing, it says progress has not been as great in privately-owned unsubsidized low-income units, and thus recommended $75 million to establish a new lead hazard reduction demonstration program focused on major urban areas where children are disproportionately at risk. P.L. 108-7 provided $174.9 million for FY2003.

Title III: Independent Agencies

Environmental Protection Agency

The President's FY2004 request for the Environmental Protection Agency (EPA) is $7.631 billion, $447 million, or 5.5 %, less than the $8.078 billion appropriated for FY2003. Accounting for much of the proposed decrease is the Administration's decision to seek reduced funding of $714 million for the State and Tribal Assistance Grants (STAG) account. About one-half of this decrease would be derived from popular wastewater grants and the rest from assistance to State Revolving Funds used to support municipal wastewater infrastructure projects. Another major issue is the adequacy of the declining Superfund Trust Fund to fund cleaning up toxic waste sites.

Table 10. Environmental Protection Agency Appropriations, FY1999-FY2003

(budget authority in billions)

FY1999	FY2000	FY2001	FY2002	FY2003
$7.6	$7.4	$7.8	$8.08	$8.08

Source: Figures for FY1999-FY2002 are from administration budget submissions of subsequent years; FY2003 is from preliminary data prepared by the House Committee on Appropriations, and is the latest available estimate for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

State and Tribal Assistance Grants. How to meet the Nation's water infrastructure capital needs remains a primary appropriations issue for EPA. The Administration's proposed FY2004 level of $3.121 billion for the State and Tribal Assistance Grants account is $714 million, or 19%, less than the $3.835 billion allocated in FY2003. Two decisions are behind this proposed decrease: the Administration not seeking continued funding for $314 million in congressionally-mandated FY2003 wastewater infrastructure grants and requesting $400 million less to capitalize State Clean Water State Revolving Funds (CWSRF) for which $850 million is requested. The $850 million requested for Drinking Water State Revolving Funds (DWSRF) is about the same as current year funding.

Table 11. Appropriations: Environmental Protection Agency, FY2003-FY2004

(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Science and Technology	.716	.731			
transfer in from Superfund	*.086*	*.045*			
Environmental programs, compliance (management)	2.098	2.220			
Office of Inspector General	.036	.037			
transfer in from Superfund	*.013*	*.013*			
Buildings and facilities	.043	.043			
Superfund (net, after transfers)	1.166	1.332			
direct appropriations	*1.265*	*1.390*			
transfers out from Superfund	*.099*	*.058*			
Leaking Underground Storage Tank Trust Fund	.072	.073			
Oil spill response	.015	.016			
State and Tribal Assistance Grants (total)	3.835	3.121			
State and tribal assistance	*2.692*	*1.919*			
Categorical grants	*1.143*	*1.203*			
Subtotal (EPA)	**8.078**	**7.631**			

Source: Preliminary data prepared by the House Committee on Appropriations.

Note: Columns may not add due to rounding.

For state and tribal administrative grants, the budget seeks $1.2 billion, $128 million more than current funding; most state administrative grants would remain the same as in the current year. Also part of the proposal, and recommended under both bills, is $180 million in Brownfields Grants for contaminated sites with development potential. For the current year, $140 million was allotted for these grants.

The major capital needs that communities face for funding drinking water and wastewater facility construction remain the chief issue associated with the STAG account. By statutory design, the federal contribution to most of these needs has been through capitalizing state funds from which states loan monies to communities. Since most localities are now borrowing their funding, any remaining direct grants listed above for special projects have become controversial. The total national needs remain great. EPA's 1996 needs survey for clean water SRF monies estimated remaining needs at $139.5 billion to $200 billion through the year 2016, while sewerage agencies estimate funding needs may be as high as $330 billion. A September 2002 EPA "Gap Analysis" estimates that $390 million is needed over the next 20 years to replace and build wastewater facilities. The needs of small communities remain a special component of this problem.

Superfund. The future of EPA's Superfund program, and its purpose of cleaning up toxic waste sites also remains an issue. The FY2004 budget request of $1.332 billion proposes a $166 million, or 14%, increase compared to FY2003. There is concern over the ability of the declining Superfund Trust Fund, which is financed by chemical fees and other taxes, to finance even part of the program beyond FY2004. Needs for the program remain considerable according to a study by Resources for the Future (RFF) requested by appropriators. RFF projects that annual needs may range from $1.7 billion to $1.9 billion annually from FY2004 to FY2009. Since its taxing authority expired on December 31, 1995, at which time the fund balance was about $4 billion, the fund's balance has been declining. Its balance at the beginning of FY2004 is projected to be $159 million and perhaps $39 million by the end of FY2004.

In the past, the trust fund paid for the majority, often over 80%, of EPA's Superfund program activities for several years; in the current year, the fund supports about 50% of the program costs while the proposal for FY2004 anticipates the trust fund paying for about 13% of program costs. In future years, general appropriations may have to pay the majority, if not all, of program costs. So, the contribution of general revenues to the annual appropriation has increased in recent years, from $250 million annually in FY1993 to FY1998, to about $600 to $700 million in FY2000 to FY2003 and $1.1 billion in FY2004. Some have criticized this fundamental change in policy, maintaining that it lessens the responsibility of polluters, under the principle that the "polluter pays," and instead socializes pollution costs across the economy, by funding them as costs to the general Treasury. Others dispute this, claiming that responsible parties continue to pay through negotiated cleanup settlements.

The two other major appropriation accounts would experience increases under the plan. The account funding the heart of EPA operations — the Environmental Programs and Management Account — with a proposed level of $2.22 billion would be $122 million greater than current year funding. Also increasing under the plan, would be funding for the Science and Technology Account. The $731 million request is $15 million above current year funding.

For more detailed information on the Superfund, see CRS Issue Brief IB10114, *Brownfields and Superfund Issues in the 108th Congress* and CRS Report RL31410, *Superfund Taxes or General Revenues: Future Funding Options for the Superfund Program*. For information on wastewater treatment issues, see CRS Report 98-323, *Wastewater Treatment: Overview and Background*.

National Aeronautics and Space Administration

For FY2004, the National Aeronautics and Space Administration (NASA) is requesting $15.469 billion, compared with its FY2003 appropriation of $15.339 billion (as adjusted for the across-the-board rescission). More details on NASA's FY2004 budget are available in CRS Report RL31821, *The National Aeronautics and Space Administration's FY2004 Budget Request: Description, Analysis, and Issues for Congress*.

On February 1, 2003, the space shuttle *Columbia* broke apart as it returned to Earth following a 16-day scientific mission in orbit. All seven astronauts aboard were killed. An investigation is underway (see CRS Report RS21408, *NASA's Space Shuttle Columbia: Quick Facts and Issues for Congress*). The shuttle fleet is grounded. The *Columbia* tragedy may affect FY2003 and FY2004 funding for the shuttle program, the space station program, and the space station research program (part of the Office of Biological and Physical Research). It may also affect NASA's plans to build an Orbital Space Plane (part of Crosscutting Technologies).

In its FY2004 request, NASA has made significant changes to its budgeting, and care must be taken when comparing FY2004 to prior years. First, the FY2004 request reflects NASA's shift to full cost accounting, where funding for each program includes the costs for personnel and facilities. Previously, those costs were accounted for separately. The intent of full cost accounting is to show more accurately a program's total cost. A consequence of this approach during the transition period, however, is to make it appear that funding for many programs has increased substantially. Glancing at NASA's FY2004 request, one might conclude, for example, that funding for the space shuttle increased more than $700 million from a request of $3.2 billion in FY2003, to a request of $3.9 billion FY2004. In fact, the FY2004 request is $182 million higher than the FY2003 request. The remainder of the difference is due to inclusion of personnel and facilities costs that were included in the "Investments and Support" line in NASA's Human Space Flight budget last year. Throughout NASA's FY2004 budget, comparisons between FY2003 and FY2004 can only be accomplished at aggregate levels (such as for the Office of Space Science).

A second significant change in FY2004 is different appropriations accounts. NASA has two accounts (not including the Inspector General, which is listed separately). Last year, the two accounts were Human Space Flight (HSF), and Science, Aeronautics, and Technology (SAT). The HSF account included funding for: space station; space shuttle; payload and Expendable Launch Vehicle support; space communications and data support; and safety, mission assurance, and engineering. SAT funding included: space science, earth science, biological and physical research, aerospace technology, and academic programs. This year, NASA revamped the budget structure to better reflect its priorities and activities. NASA is seeking to demonstrate that its mission is "Science, Aeronautics, and Exploration," and that mission is supported by "Space Flight Capabilities" such as a space station, space transportation (the space shuttle and expendable launch vehicles), space communications systems, and investing in new technologies. The following text reflects the new budget structure.

Table 12. National Aeronautics and Space Administration Appropriations, FY1999-FY2003
(budget authority in billions)

FY1999	FY2000	FY2001	FY2002	FY2003
$13.67	$13.60	$14.29	$14.90	$15.3

Source: Figures for FY1999-FY2002 are from administration budget submissions of subsequent years; FY2003 is from preliminary data prepared by the House Committee on Appropriations, and is the latest available estimate for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

Science, Aeronautics, and Exploration. This account contains funding for the Offices of Space Science, Earth Science, Biological and Physical Research, and Education, as well as funding for aeronautics activities (part of the Office of Aerospace Technologies, the rest of which is funded in the Space Flight Capabilities account).

Space Science. For FY2004, NASA is requesting $4.007 billion for the Office of Space Science, compared with a FY2003 appropriations level of $3.501 billion. In the FY2004 budget, the activities of the Office of Space Science are divided into five "themes" and the funding allocated as follows: Solar System Exploration, $1.359 billion; Mars Exploration, $570 million; Astronomical Search for Origins, $877 million; Structure and Evolution of the Universe, $432 million; and Sun-Earth Connections, $770 million. Two of the projects being pursued by the Office of Space Science seem likely to receive close attention during the FY2004 budget cycle: Project Prometheus, and the James Webb Space Telescope (JWST, formerly called the Next Generation Space Telescope).

Project Prometheus is an expansion of the Nuclear Systems Initiative requested by NASA and approved by Congress in the FY2003 budget. Through NSI, NASA is developing new radioisotope thermoelectric generators (RTGs) that provide electrical power for spacecraft, and nuclear propulsion to propel spacecraft from Earth orbit to other destinations. In the FY2004 budget, NASA requests permission to build a spacecraft, the Jupiter Icy Moons Orbiter (JIMO), that would make use of the new nuclear systems. JIMO's mission would be to search for evidence of oceans on three moons of Jupiter: Europa, Ganymede, and Callisto. NASA combines NSI and JIMO into Project Prometheus. The cost estimate for Project Prometheus over the next 5 years (FY2004-2008) is $3 billion ($1 billion for NSI, plus $2 billion for

JIMO). JIMO would be launched in 2012-2013. The head of NASA's space science program says the estimate through 2012 is $8-9 billion, but cautions that the cost estimate is very preliminary. The project may raise several questions, including whether the agency can afford such an expensive program at this time.

JWST is a space telescope currently expected to be launched in June 2010. The FY2004 request is $254.6 million. The preliminary cost estimate for building it is $1.6 billion. Some see JWST as a replacement for the Hubble Space Telescope, which was launched in 1990. Others consider it simply as the next in NASA's series of orbiting observatories, but not necessarily a replacement for Hubble. Current plans call for Hubble to be retired at about the same time as JWST is launched, and NASA plans to fund JWST from the "funding wedge" created by the reduction in Hubble funding requirements. NASA estimates that it costs approximately $100 million per year for the periodic Hubble servicing missions by space shuttle crews. This linkage between funding for Hubble and funding for JWST is raising concern. Some supporters of Hubble, who apparently would like to see its mission extended, are concerned about the cost and schedule of JWST. A related concern is whether there will be a gap between the end of Hubble operations and the beginning of JWST operations.

Biological and Physical Research. NASA is requesting $972.7 million in FY2004 for the Office of Biological and Physical Research (OBPR). For FY2003, Congress appropriated $862.3 million. In the FY2004 request, OBPR is separated into three themes and the proposed funding allocated as follows: Biological Sciences Research, $359 million; Physics Sciences Research, $353 million; and Commercial Research and Support, $261 million. OBPR conducts most of its research on the space shuttle and the space station. The space shuttle *Columbia* tragedy may affect OBPR's FY2003 and FY2004 budgets, and possibly future years depending on how long the shuttle fleet is grounded and space station construction is suspended.

Earth Science. NASA is requesting $1.552 billion for Earth Science. The FY2003 appropriation was $1.708 billion. In the FY2004 request, Earth Science is divided into two themes and the proposed funding allocated as follows: Earth System Science, $1.477 billion; Earth Science Applications, $75 million. The primary issue in the Earth Science program may be the decision to terminate plans to build additional satellites in the Earth Observing System (EOS) series to gather earth system science data. NASA had promised the earth science community a 15-year data set of global change observations based on instruments providing data comparable to that being gathered by the first-generation EOS satellites.

NASA now has terminated plans for additional EOS satellites, and instead plans to gather such data through the National Polar Orbiting Environmental Satellite System (NPOESS), a joint program among the Department of Defense (DOD), the National Oceanic and Atmospheric Administration (NOAA, in the Department of Commerce), and NASA. NPOESS will be a system of weather satellites that meet both DOD and NOAA needs, instead of the separate systems they have now. NASA is developing new technologies to achieve NPOESS objectives through its NPOESS Preparatory Project (NPP), which is in the formulation phase (it has not been approved for development).

The FY2004 NASA request for NPOESS is $96 million; the estimate for FY2004-2008 is $289 million. Although maintaining long-term continuity of environmental monitoring and assessment is one of the missions for NPOESS, some scientists may worry that obtaining scientific data for the long term study of climate change may not be a high priority for DOD and NOAA, both of whose primary responsibility in this area is weather forecasting. Thus, if budget constraints arise and choices must be made between sensors for weather forecasting versus scientific research, the concern is that the latter may not be included and data continuity will be lost.

Aeronautics. For FY2004, NASA is requesting $959.1 million for Aeronautics Technology. A comparable figure (in full-cost accounting) is not available for FY2003 appropriations. The shift to full cost accounting is particularly significant for the Aeronautics Technology theme, because it is a major user of facilities such as wind tunnels, which were previously budgeted under a separate account. The main issue for the Aeronautics Technology theme is its overall funding level. Funding for aeronautics R&D has been reduced significantly since its FY1998 peak of $920 million (*not* expressed in full cost accounting terms).

The level of the FY2004 request and NASA's plans for further reductions in future years have proved contentious among congressional supporters of the program. Supporters argue that more R&D in this area is needed to maintain the health of the U.S. aviation industry and the international competitiveness of U.S. aircraft manufacturers. NASA states that future funding levels may increase from current plans as the result of collaborative efforts now being discussed among NASA, the Federal Aviation Administration, and other agencies with interests in aviation.

Education. NASA is requesting $169.8 million for the Office of Education. Congress appropriated $202.2 million in FY2003. The NASA Administrator, Sean O'Keefe, has made education one of his priorities, elevating education to "enterprise" status within the agency and consolidating many of NASA's education activities into a single office.

One issue that may arise is whether NASA should continue its plans to launch "educator astronauts" on the space shuttle. The first educator astronaut already has been assigned to a shuttle mission, and NASA is in the process of selecting additional educators who will be fully trained as astronauts. The first educator astronaut, Barbara Morgan, was the back-up to "Teacher in Space" Christa McAuliffe who died during the space shuttle *Challenger* accident in 1986. Mrs. Morgan returned to teaching after the *Challenger* accident, but continued advocating the importance of educators in space, and was selected for NASA astronaut training in 1998. In the wake of the 2003 space shuttle *Columbia* accident, some may question the wisdom of launching individuals into space whose presence is not essential. One difference from the previous Teacher in Space program is that now the educators are fully trained as NASA astronauts rather than undergoing an abbreviated training regimen like Mrs. McAuliffe's.

Space Flight Capabilities. This new category in the FY2004 budget contains funding for the space station program, the space shuttle, and activities conducted by the Office of Aerospace Technology (OAT), with the exception of aeronautics (discussed above). Those OAT activities are now labeled "Crosscutting Technologies."

International Space Station (ISS). The FY2004 budget request for the International Space Station (ISS) program is $2.285 billion ($1.707 billion under this budget category, plus $578 million for space station research in the Office of Biological and Physical Research (in the Science, Aeronautics, and Exploration account). Some would add $550 million that is in the FY2004 request for the Orbital Space Plane (OSP), which is being designed to take crews back and forth to the space station. NASA does not count OSP as part of the space station program, however, and this report will use the $2.285 billion figure as the space station request. A comparable figure (in full cost accounting) is not available for FY2003 appropriations.

The space station is under construction in orbit and the facility has been permanently occupied by successive crews on 4-6 month shifts since November 2000. Construction is currently suspended while the U.S. space shuttle is grounded in the wake of the space shuttle *Columbia* accident, although NASA and its partners in the program — Europe, Canada, Japan, and Russia — have decided to continue maintaining crews aboard the station using Russian spacecraft to take them back and forth. The current crew (one Russian and one American) began its tour of duty in late April 2003 and is scheduled to be replaced by a new crew in October. The construction hiatus is expected to increase space station program costs, which have been controversial for many years. See CRS Issue Brief IB93017, *Space Station* for more on the space station program.

Table 13. Appropriations: National Aeronautics and Space Administration, FY2003-FY2004

(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
Human space flight	6.166	—			
Space flight capabilities	—	7.782			
Sci., aeronaut., technology	9.148	—			
Sci., aeronaut., exploration	—	7.661			
Inspector General	.025	.026			
Subtotal (NASA)	**15.339**	**15.469**			

Source: Preliminary data prepared by the House Committee on Appropriations. The FY2003 enacted figures do not reflect changes subsequently made by NASA as permitted in the appropriations act and reported in NASA's FY2003 operating plan.

Note: Columns may not add due to rounding.

Space Shuttle. For FY2004, NASA is requesting $3.968 billion for the shuttle program. A comparable figure (in full cost accounting) is not available for FY2003 appropriations. As noted earlier, the space shuttle fleet is currently grounded as investigators seek to determine the cause of the February 1, 2003 space shuttle *Columbia* accident. Until the cause of the accident is understood, and remedial steps identified, the impact on the shuttle program budget cannot be specified. Since the space shuttle is needed to take additional segments of the space station into orbit, and to take scientific experiments to the space station crews, the grounding of the fleet may have ramifications for the space station and space station research budgets as mentioned elsewhere. The issues surrounding the shuttle program are expected to be the focus of congressional attention on NASA's FY2004 budget request. They are complex, and are discussed in more detail in CRS Report RS21408, *NASA's Space Shuttle Columbia: Quick Facts and Issue for Congress*, and CRS Issue Brief IB93062, *Space Launch Vehicles: Government Activities, Commercial Competition, and Satellite Exports*.

Crosscutting Technologies. This new budget category represents funding for the activities of the Office of Aerospace Technology, except for aeronautics (discussed earlier). The total request for Crosscutting Technologies is $1.673 billion. Crosscutting Technologies has three themes and the requested funding is allocated as follows: Space Launch Initiative, $1.065 billion; Mission and Science Measurement Technologies, $438 million; and Innovative Technology Transfer Partnerships, $169 million.

The most controversial aspect of this part of the budget is the Space Launch Initiative (SLI), which was reformulated in an amendment to the FY2003 budget. Originally, it was focused on developing new technologies that were to lead to a NASA decision in 2006 on what new reusable space launch vehicle to build to replace the space shuttle. Now it is focused on building an Orbital Space Plane (OSP) to take crews back and forth to the space station, along with technology development activities expected to lead to a decision in 2009 on what new reusable or expendable launch vehicle to build to take cargo into space.

In the wake of the space shuttle *Columbia* accident, some are asking whether it would be possible to accelerate development of the OSP, while others are asking why an OSP is needed, assuming that the shuttle will one day return to flight. Some of the latter group argue that what NASA actually needs is a simpler and less expensive crew return vehicle (CRV) to bring crews back from the space station in an emergency. NASA was developing a CRV, but indefinitely deferred it in 2001 due to cost growth in the space station program. Without a U.S. CRV, space station crew size may be limited to a maximum of three people instead of seven as originally planned (space station crews have been reduced in size temporarily from three to two while the shuttle is grounded to reduce resupply requirements). The OSP would be able to perform the crew return service, but also would be able to take people into space, and therefore is expected to be a more technically challenging and expensive program.

National Science Foundation

The FY2004 request for the National Science Foundation (NSF) is $5,481.2 million, a 3.2% ($171.2 million) increase over the FY2003 level of $5,310 million (see **Table 16**). The FY2004 request provides support for several interdependent priority areas: biocomplexity in the environment ($99.8 million), information technology research ($302.6 million), workforce for the 21st century ($8.5 million), nanoscale science and engineering ($249 million), mathematical sciences ($89.1 million), and human and social dynamics ($24.3 million).

The request provides the third installment of $200 million for the President's Math and Science Partnerships program (MSP). The MSP is a five-year investment to improve the performance of U.S. students in science and mathematics at the precollege level. Additional FY2004 highlights include funding for graduate fellowships and traineeships ($215 million), leading-edge research in cyber infrastructure ($20 million), continued support of plant genome research ($75 million), investments in Climate Change Research Initiative ($25 million), added support for the administration and management portfolio ($291.4 million), and funding for three to five new multi-disciplinary, multi-institutional Science of Learning Centers ($20 million).

Table 14. National Science Foundation Appropriations, FY1999 to FY2003

(budget authority in billions)

FY1999	FY2000	FY2001	FY2002	FY2003
$3.90	$4.43	$4.79	$4.81	$5.3

Source: Figures for FY1999-FY2002 are from administration budget submissions of subsequent years; FY2003 is from preliminary data prepared by the House Committee on Appropriations, and is the latest available estimate for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

Research and Related Activities. Included in the FY2004 request is $4,106.4 million for Research and Related Activities (R&RA), a 1.2% increase ($184.9 million) over the FY2003 level of $4,056.5 million. R&RA funds research projects, research facilities, and education and training activities. In the FY2004 request, the NSF has placed an emphasis on funding rates for new investigators and on increasing grant size and duration. Partly in response to concerns in the scientific community about the imbalance between support for the life sciences and the physical sciences, the FY2004 request provides increased funding for the physical sciences. Research in the physical sciences often leads to advances in other disciplines. The R&RA includes Integrative Activities (IA), created in FY1999. IA funds major research instrumentation, Science and Technology Centers, Science of Learning Centers, Partnerships for Innovation, disaster response research teams, and the Science and Technology Policy Institute. The FY2004 request for IA is $132.5 million, a decrease of 9.7% from the FY2003 appropriation.

Research project support in the FY2004 request totals $2,696 million. Support is provided individuals and small groups conducting disciplinary and cross-disciplinary research. Included in the total for research projects is support for centers, proposed at $411 million. NSF supports a variety of individual centers and center programs. The request provides $45 million for Science and Technology Centers, $57 million for Materials Centers, $60 million for Engineering Research Centers, $13 million for Physics Frontiers Centers, $32 million for the Plant Genome Virtual Centers, and $74 million for Information Technology Centers.

Major Research Equipment; Facilities Construction. The Major Research Equipment and Facilities Construction (MREFC) account is funded at $202 million in FY2004, a 36.2% increase ($54 million) over the FY2003 level. The MREFC supports the acquisition and construction of major research facilities and equipment that extend the boundaries of science, engineering, and technology. Seven projects are supported in this account for FY2004, all ongoing projects — construction of the Atacama Large Millimeter Array ($51 million), the Network for Earthquake Engineering Simulation ($8 million), the South Pole Station Modernization Project ($1 million), Terascale Computing Systems ($20 million), Earthscope ($45 million), the High-Performance Instrumented Airborne Platform for Environmental Research, HIAPER, $25.5 million), IceCube R&D project ($60 million), and the National Ecological Observatory Network, Phase I ($12 million).

The request proposes funding for three new start-up projects in FY2005 and FY2006. The proposed new starts are prioritized — Scientific Ocean Drilling in FY2005; Rare Symmetry Violating Processes in FY2006; and Ocean Observatories in FY2006. Authorization legislation included language requiring NSF to develop a clear and detailed process for funding large facility projects. For the first time, NSF must provide to Congress a rank ordering of all approved large facility construction projects and a discussion of how these projects were selected, approved, and prioritized.

Table 15. Appropriations: National Science Foundation, FY2003-FY2004

(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 Senate	FY2004 House	FY2004 Conf.
Research, related activities	4.056	4.106			
Major research equipment	.149	.202			
Education, human resources	.903	.938			
Salaries and expenses	.189	.226			
National Science Board	.003	— -			
Office of Inspector General	.009	.009			
Subtotal (NSF)	**5.309**	**5.481**			

Source: Preliminary data prepared by the House Committee on Appropriations.

Note: May not add due to rounding.

Education and Human Resources. The FY2004 request for the Education and Human Resources Directorate (EHR) is $938 million, a 3.9% increase ($34.8 million) over FY2003. Support at the various educational levels in the FY2004 request is as follows: precollege, $346.9 million; undergraduate, $180.7 million; and graduate, $164.9 million. Support at the precollege level includes $200 million for the MSP directed at funding for states and local school districts to join with colleges and universities to strengthen K-12 science and mathematics education. Support will continue for Systemic Reform Initiatives, Instructional Materials Development, Centers for Learning and Teaching, and Teacher Professional Continuum.

Efforts at the undergraduate level include the STEM Talent Expansion Program, the Robert Noyce Scholarship Program, and the National STEM Education Digital Library. Workforce for the 21st Century priority area is supported at the undergraduate level. It will focus on attracting students to the scientific and technical disciplines.

An increase in FY2004 for graduate level programs will allow NSF to raise the stipend of graduate fellows to $30,000 and to increase the number of offers of new fellowships. Graduate Teaching Fellowships in K-12 Education will be increased to $42.5 million. This program links the excellence of U.S. graduate education with the critical needs of school districts. Support for other graduate programs includes the Centers of Research Excellence in Science and Technology, Model Institutions for Excellence, and Alliances for Graduate Education and the Professoriate.

Funding for the Experimental Program to Stimulate Competitive Research (EPSCoR) is $75 million in FY2004. An additional $30 million from R&RA will support the three activities of EPSCoR — research infrastructure improvement, co-funding, and outreach. NSF estimates that the H-1B nonimmigrant petitioner fees collected in FY2003 will approximate $92.5 million.

Other Independent Agencies

In addition to funding for VA, HUD, EPA, FEMA, NASA and NSF, several other smaller "sundry independent agencies, boards, commissions, corporations, and offices" will receive their funding through the Act providing appropriations for VA, HUD, and Independent Agencies for the fiscal year that began October 1, 2002. Table 17 lists appropriations for FY2003, and proposed levels for FY2004 for these agencies.

Agency for Toxic Substances and Disease Registry. This agency, which is placed in the Department of Health and Human Services (HHS), manages the Toxic Substances and Environmental Public Health program, which issues toxicological profiles of possible toxic substances. The Agency conducts health studies, evaluations, or other activities, using biomedical testing, clinical evaluations, and medical monitoring.

American Battle Monuments Commission. The Commission is responsible for the construction and maintenance of memorials honoring Armed Forces battle achievements since 1917. Included among the Commission's functions are the maintenance of 24 American military cemeteries and 31 memorializations in 15 foreign countries, as well as three large memorials in the United States.

Cemeterial Expenses, Army. Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery are administered by the U.S. Army. By FY2002, 289,494 persons were interred/inurned in these cemeteries. In addition to 6,625 interments and inurnments estimated for FY2003, Arlington is the site of approximately 3,000 other ceremonies, and 4 million visitors, annually.

Chemical Safety and Hazard Investigation Board. The Board, which was authorized by the Clean Air Act Amendments of 1990, investigates hazardous substance spills or releases.

Community Development Financial Institutions fund. The Community Development Financial Institutions (CDFI) Fund was created by P.L. 103-325. The purpose of the Fund is to provide credit and investment capital to distressed urban and rural areas by investing in and supporting community based organizations. The Fund's programs also encourage banks and thrifts to expand their activities in distressed communities. The programs provide training and technical assistance to qualifying financial institutions. In addition, the Fund administers the New Markets Tax Credit program created by P.L. 106-554. Through this program the Fund allocates tax credits as part of an effort to expand incentives for business investment in low-income communities. P.L. 104-19 modified the original Act by giving the Department of the Treasury the authority to manage the CDFI Fund, although the Fund's programs continue to be funded through the VA/HUD bill. The CDFI Fund has survived despite attempts to eliminate it.

Consumer Product Safety Commission (CPSC). The Commission is an independent regulatory agency charged with protecting the public from unreasonable product risk and to research and develop uniform safety standards for consumer products.

Corporation for National and Community Service (CNCS). The Corporation administers programs authorized under the National and Community Service Act of 1990 (NCSA) and the Domestic Volunteer Service Act of 1973 (DVSA). The DVSA programs — e.g., Foster Grandparents Program and Senior Companion Program — are funded under the Labor/HHS Appropriation bill. Authorization for CNCS, and programs and activities authorized by NCSA, expired at the end of FY1996. Since then, continued program authority has occurred through the appropriations process.

In past Congresses, the key issue concerning the Corporation and the NCSA programs has been budgetary survival. Concerns expressed by some Members have included the issues of partisan activities, program costs, and federally funding a "paid volunteer" program. In recent years, concerns were specifically expressed about whether CNCS could be audited and whether the audits were "clean." The Corporation has now received its second consecutive unqualified or "clean" opinion on its financial statements audit.

For further information on the Corporation and its programs see: CRS Report RL30186, *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs*, and CRS Report RS21246, *National and*

Community Service: Reauthorization of the National and Community Service Act of 1990 and the Domestic Volunteer Service Act of 1973.

Council on Environmental Quality; Office of Environmental Quality. These two entities are within the Executive Office of the President. The Council oversees and coordinates interagency decisions in matters affecting the environment; the Office provides the professional and administrative staff for the Council.

U.S. Court of Appeals for Veterans Claims. The U.S. Court of Appeals for Veterans Claims has exclusive jurisdiction to review decisions of the Board of Veterans' Appeals, and has the authority to decide relevant conflicts in the interpretation of law by VA and the Board of Veterans' Appeals. The Court's decisions constitute precedent to guide subsequent decisions by that Board.

Federal Consumer Information Center (FCIC). The Center, administered through the General Services Administration (GSA), helps federal agencies distribute consumer information and promotes public awareness of existing federal publications through publication of the quarterly *Consumer Information Catalogue*, and the *Consumer's Action Handbook*.

Federal Deposit Insurance Corporation. The FDIC's Office of the Inspector General is funded from deposit insurance funds, and has no direct support from federal taxpayers. Before FY1998, the amount was approved by the FDIC Board of Directors; the amount is now directly appropriated to ensure the independence of the IG office.

Interagency Council on the Homeless. The Interagency Council on the Homeless (ICH) is an independent agency established by the McKinney-Vento Homeless Assistance Act of 1987, to oversee the efforts of federal agencies and others involved in addressing the issues of homelessness. The Council has been funded through HUD's Homeless Assistance Grants, but the Committee contends that a separate account would achieve the independence entailed by the law creating the Council. The Committee asserts that the Council should develop and lead the effort to end homelessness, and "[i]n order for the ICH to be successful in this endeavor relevant Federal departments and agencies should defer to the ICH on policy and funding proposals that affect homelessness."

National Credit Union Administration (NCUA). The NCUA regulates credit unions, administering two primary programs. The Central Liquidity Facility (CLF) is a mixed ownership government corporation established by P.L. 95-630 to improve the general financial stability of credit unions by serving as a lender of last resort to credit unions experiencing unusual or unexpected liquidity shortfalls. The Community Development Revolving Loan Fund (CDRLF) was established in 1979 by P.L. 96-123, and provides support to low-income credit unions.

Central Liquidity Facility. The CLF is owned by its member credit unions and it is managed by the National Credit Union Administration. The CLF can finance loans using its assets and it can also borrow from the Federal Financing Bank to meet liquidity demands. The borrowing limit is specified by language in the VA-HUD appropriation bill. Congress also determines the level of CLF operating expenses, which are not funded through appropriations but by earned income.

Community Development Revolving Loan Fund. The CDRLF has been administered by the National Credit Union Administration since 1987. The Fund makes low-interest loans and technical assistance grants to low-income credit unions.

Table 16. Appropriations: Other Independent Agencies, FY2003-FY2004

(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Agency for Toxic Substances and Disease Registry	.082	.073			
American Battle Monuments Commission	.035	.032			
Chem. Safety and Hazard Investigations Board	.006	.008			
Cemetery Expenses, Army	.032	.026			
Community Development Financial Institutions	.075	.051			
Consumer Product Safety Comm.	.057	.060			
Corporation for National and Community Service[a]	.384	.598			
Council, Environ. Quality; Office, Environ. Quality	.003	.003			
Court of Appeals, Veterans Claims	.014	.016			
Fed. Consumer Inform. Center	.011	.018			
Federal Deposit Insurance Corporation (transfer)	*(.031)*	*(.030)*			
Interagency Council on Homeless	.001	— -			
National Credit Union Admin.	.001	.001			
National Institute, Environmental Health Sciences	.084	..079			
Neighborhood Reinvestment Corp.	.104	.115			
Office, Science &Tech.	.005	.007			
Selective Service System	.026	.028			
Subtotal: Other agencies	**0.920**	**1.115**			

Source: Preliminary data prepared by the House Committee on Appropriations.

Note: Totals may not add due to rounding.

National Institute of Environmental Health Sciences. This Institute is within the National Institutes of Health, administered by the Department of Health and Human Services (HHS).

Neighborhood Reinvestment Corporation (NRC). The NRC leverages funds for reinvestment in older neighborhoods through community-based organizations called Neighbor Works. Among projects supported by NRC financing are lending activities for home ownership of low-income families. Nationwide, there are 184 of these organizations, serving 825 communities in 45 states, with 70% of the people served living in very low and low-income brackets.

Office of Science and Technology Policy. The Office of Science and Technology Policy coordinates science and technology policy for the White House. The Office provides scientific and technological information, analysis and advice to the President and the executive branch, and reviews and participates in the formulation of national policies affecting those areas.

Selective Service System (SSS). The SSS was created to supply manpower to the U.S. Armed Forces during time of national emergency. Although since 1973, the Armed Forces have recruited personnel through voluntary enlistment incentives, the SSS remains the primary vehicle for conscription should it become necessary. In 1987, the SSS was given the task of developing a post-mobilization health care system that would assist with providing the Armed Forces with health care personnel in time of emergency.

Selected World Wide Web Sites

Federal Consumer Information Center (FCIC) [http://www.pueblo.gsa.gov] and [http://www.info.gov/]

Environmental Protection Agency (EPA), Summary and Justification of Budget.
[http://www.epa.gov/ocfopage]

Corporation for National and Community Service
[http://www.cns.gov/]

Department of Housing and Urban Development (HUD).
[http://www.hud.gov]

Federal Emergency Management Agency (FEMA)
[http://www.fema.gov]

National Aeronautics and Space Administration (NASA).
[http://www.hq.nasa.gov]

National Science Foundation (NSF).
[http://www.nsf.gov]

Office of Management and Budget (OMB).
[http://www.whitehouse.gov/omb/]

Department of Veterans Affairs (VA).
[http://www.va.gov]

Additional Reading

CRS Report RL30803, *Veterans Issues in the 107th Congress,* by Dennis Snook.

CRS Report RL30916, *Housing Issues in the 107th Congress*, by Richard Bourdon.

CRS Report RL30486. *Housing the Poor: Federal Programs for Low-Income Families*, by Morton J. Schussheim.

CRS Report RL30589. *HOPE VI: The Revitalization of Severely Distressed Public Housing,* by Susan M. Vanhorenbeck.

CRS Report RS20704. *Housing Opportunities for Persons with AIDS(HOPWA),*by M. Ann Wolfe.

CRS Report RL30442. *Homelessness: Recent Statistics and Targeted Federal Programs*, by M. Ann Wolfe.

CRS Report RS20670. *Temporary Suspension of New Mortgages under the FHA General and Special Risk Insurance Funds,* by Bruce E Foote.

CRS Issue Brief IB10114. Brownfields and Superfund Issues in the 108th Congress, by Mark Reisch.

CRS Report 98-323. *Wastewater Treatment: Overview and Background,* by Claudia Copeland.

CRS Issue Brief IB10101. *The Environmental Protection Agency's FY2003 Budget*, by Martin R. Lee.

CRS Report RS20736. *Disaster Mitigation Act of 2000 (P.L. 106-390): Summary of New and Amended Provisions of the Stafford Disaster Relief Act,* by Keith Alan Bea.

CRS Report 95-307. *U.S. National Science Foundation: An Overview,* by Christine M. Matthews.

CRS Report RL30186. *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs,* by Ann M. Lordeman.