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The Department of Housing and Urban Development: FY2004 Budget

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Richard Bourdon, Coordinator
Domestic Social Policy Division

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Summary

The Administration's proposed FY2004 budget for the Department of Housing and Urban Development (HUD) requests $31.7 billion (not including an "advance appropriation"of $4.2 billion that cannot be spent until FY2005), an increase of about $700 million above FY2003 (P.L. 108-7). The House-approved bill, H.R. 2861, which recommends a net appropriation of $31.8 billion, and the Senate Committee bill, S. 1584, at $31.9 billion, are marginally higher than the budget request.

The budget proposal requests $18.4 billion for the Section 8 Housing Certificate Fund (HCF); the House bill recommends slightly more at close to $18.6 billion, and the Senate bill would provide $18.4 billion. Although HUD claims its request will allow renewal of all housing vouchers currently in use, low-income housing advocates maintain the budget will be insufficient to do this. The Senate Appropriations Committee acknowledges that $18.4 billion may not be adequate to cover all renewals because the Administration may have under-estimated the per-unit costs of vouchers or the voucher utilization rate, and thus, it expects the Administration to address any budget shortfall in a FY2004 supplemental appropriations bill. Neither the House nor the Senate bills accept the Administration's proposed *Housing Assistance for Needy Families (HANF)* program initiative (H.R. 1841/S. 947) that would convert the existing Section 8 Housing Choice Voucher program into a block grant to states.

In the sharpest reduction proposed for any HUD program, the Administration requested no new funding for the HOPE VI program, which received $570 million in FY2003 to rehabilitate public housing. It cited large amounts of unspent money in the pipeline. The House bill would provide $50 million in FY2004 and the Senate bill, $195 million. The Senate Committee expressed disappointment that the Administration has sought to eliminate the program without proper review and without providing alternative authority and funding – and has included bill language to extend the expiring program through September 30, 2006.

The President's budget requests $2.2 billion for the HOME program, with a $200 million set-aside for a Downpayment Assistance Initiative. Under the House bill, HOME would receive $2.1 billion, with $125 million for the Downpayment Initiative. The Senate bill would provide $1.975 billion for HOME, with $50 million for the homeownership initiative. The House bill would increase HUD's Homeless Assistance Grants programs by $25 million above the FY2003 level and the Senate bill, by $108 million. Both the House and Senate bills would fund the Community Development Block Grant program at close to $5 billion, more than $230 million above the budget request of $4.716 billion. Under the Administration's proposed budget, the Office of Lead Hazard Control would be cut by $39 million to $136 million, and Brownfields Redevelopment and Rural Housing Development would receive no funding. H.R. 2861 provides $130 million for Lead Hazard Control; S. 1584 provides $175 million. Both the House and Senate bills provide $25 million for Brownfields Redevelopment and $25 million for Rural Housing. This report will be updated to reflect further action on HUD appropriations.

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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 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 Administration proposals for FY2004 and the congressional response, highlighting significant changes in funding levels and associated issues.

Key Policy Staff

Name	Area of Expertise	CRS Division	Telephone and E-Mail
Richard Bourdon	Housing: Housing issues and legislation, homeownership, tax-based housing programs	DSP	7-7806 rbourdon@crs.loc.gov
Eugene Boyd	Community Development	G&F	7-8689 eboyd@crs.loc.gov
Bruce Foote	Housing: FHA, HOME, Predatory Lending, RESPA	DSP	7-7805 bfoote@crs.loc.gov
Maggie McCarty	Housing: Section 8, Public Housing, homeless, AIDS, elderly/disabled	DSP	7-2163 mmccarty@crs.loc.gov

Division abbreviations: DSP=Domestic Social Policy; G&F=Government and Finance.

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 (EZ/ECs) programs;
- A new Public Housing Reinvestment Initiative to encourage private capital for the rehabilitation of public housing;
- New Downpayment Assistance Initiative as a $200 million set-aside within HOME program (H.R. 1276), $45 million for counseling, and new FHA insurance products to help lower income and minority households (an effort to combat predatory lending);
- Increased funding for homeless assistance, with new $50 million Samaritan Initiative; and
- Community Development Block Grants requested at $4.716 billion, $189 million below FY2003 level, with no funding for Economic Development Initiatives (congressionally earmarked projects).

House (H.R. 2861) and Senate (S. 1584) Response to Proposed Budget

- Recommends HUD budget of $31.8 billion (H.R. 2861) and $31.9 billion (S. 1584), not significantly different from the budget request;
- Housing Certificate Fund funded at $18.6 billion (H.R. 2861) and $18.4 billion (S. 1584), with no incremental vouchers funded and some doubt that either amount will be sufficient to renew all vouchers;
- Both House and Senate bills reject HANF, Public Housing Reinvestment, Samaritan and Colonias Initiatives;
- HOME recommended at near $2.1 billion, including $125 million for Administration's Downpayment Assistance Initiative (H.R. 2861) and near $2.0 billion, with $50 million for Downpayment Initiative (S. 1584);
- Large reduction recommended for HOPE VI at $50 million (H.R. 2861) and $195 million (S. 1584) compared to $570 million in FY2003;
- Near level funding for Public Housing Capital and Operating programs, together at about $6.2-$6.3 billion;
- Homeless programs increased by $25 million over FY2003 (H.R. 2861) and $108 million (S. 1584);
- Proposed anti-predatory lending FHA product not adopted;

- Brownfields funded at $25 million and Rural Housing, $25 million; and
- Community Development Block Grants recommended at about $5 billion, near level funding with FY2003, but about $230 million above the budget request.

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). On July 25, 2003, the House responded to the HUD proposal with the passage of an amended version of H.R. 2861 (H.Rept. 108-235) that was approved by the House Appropriations Committee on July 21, 2003. The Senate Appropriations Committee passed S. 1584 (S.Rept. 108-143) on September 8, 2003.

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 believes 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 believes this approach would make it more possible to end the chronic problem of unspent monies in the housing voucher program. Opponents worry that funding under the new HANF program would not keep pace with rapidly rising housing costs, and that states might establish new requirements such as time limits on receiving assistance for tenants, similar to those under welfare reform programs. Opponents also question whether a block grant to states would merely add another layer of bureaucracy if states were to reroute federal funds back to the same local public housing authorities. The House Appropriations Committee report recommends continued funding of the Housing Certificate Fund account rather than through the HANF proposal, noting that "this proposal is currently under consideration by the relevant authorization committees and therefore [the committee] defers any changes to the funding structure until further congressional action on the legislative proposal." The House-approved bill concurs with this view. The Senate bill, S. 1584, also rejects the HANF proposal, with the Committee report stating that "Until there is reliable data on the current per-unit costs and utilization rates of vouchers as well as assurances that the block grant funding will meet all voucher needs, the Committee is not inclined to consider fully the administration's block grant proposal."

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 seeks a dialogue with Congress on how the program might be improved. During a number of congressional hearings on the proposed budget in February, March, and April, 2003, considerable bipartisan support was expressed for continued funding of the program. Others made the case that in a tight budget period, this was the most reasonable program to cut. On June 19, 2003, the House Financial Services Committee reported out H.R.1614 (H.Rept. 108-165) that would reauthorize HOPE VI through FY2005. The House-approved bill, H.R. 2861, recommends $50 million in funding for HOPE VI and the Senate bill, S. 1584, would provide $195 million for FY2004.

The Administration proposed its *Public Housing Reinvestment Initiative* to encourage Public Housing Authorities (PHAs) to convert some public housing units to Section 8 project-based assistance again this year. 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. HUD would like to move public housing towards private ownership, with more market-based decisions about the operations and maintenance of projects. HUD also believes 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 believe 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. The House Appropriations Committee report says it understands that "under existing statutory authorities, a number of PHAs have in fact successfully pursued approximately $1 billion in public-private financing partnerships ... [and] the Committee believes that such proposals need to be more fully examined before significant statutory and funding changes are made." (Baltimore, Chicago, and Philadelphia are examples of cities that have obtained such private financing.) The House-approved bill rejects the initiative. The Senate bill also rejects the proposal, with the Committee report stating that it "could result in a loss of public housing units, and would not benefit public housing units with the greatest capital needs."

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 some 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 June 19, 2003, the House Financial Services Committee reported H.R. 1276 (H.Rept. 108-164), the Administration's Downpayment Assistance Initiative. The House-approved budget bill, H.R. 2861, would provide $125 million for the Downpayment Initiative and the Senate would provide $50 million.

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.

Table 1. 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, a one time anomaly. FY2003 figures are from preliminary numbers provided by the House Appropriations Committee's Subcommittee on the VA, HUD, and Independent Agencies and includes an across-the-board rescission of 0.65% enacted in FY2003. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

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 the Agency's $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 2. Appropriations: Housing and Urban Development, FY2003-FY2004

(budget authority in billions)

Programs	FY2003	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Housing Certificate Fund (HCF)	17.112	—	18.581	18.434	
HCF appropriation	*12.939*	—	*14.381*	*14.234*	
Advance approp. from prior FY	*4.173*	—	*4.200*	*4.200*	
Housing Assistance for Needy Families (HANF)[a]	—	12.535	—	—	
HANF appropriation	—	*8.335*	—	—	
advance approp. from prior FY	—	*4.200*	—	—	
Advance approp. for following FY	(4.200)	(4.200)	(4.200)	(4.200)	
Project-based Rental Assistance	0.000	4.823	0.000	0.000	
Sec. 8 recaptures (rescission)	-1.600	-0.300	-1.372	-1.372	
Public housing capital fund	2.712	2.641	2.712	2.641	
Public housing operating fund	3.577	3.574	3.600	3.577	
Revitalization of distressed public housing (HOPE VI)	0.570	0.000	0.050	0.195	
Native American housing block grants	0.645	0.647	0.662	0.647	
Indian housing loan guarantee	0.005	0.001	0.005	0.005	
Native Hawaiian Block Grant	0.000	0.010	0.000	0.000	
Native Hawaiian loan guarantee	0.001	0.001	0.001	0.001	
Subtotal: Public & Indian Hsg. (net)	*23.022*	*23.932*	*24.089*	*24.127*	

Programs	FY2003	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Housing, persons with AIDS (HOPWA)	0.290	0.297	0.302	0.291	
Rural Housing Economic Development	0.025	0.000	0.025	0.025	
Empowerment zones; enterprise communities	0.030	0.000	0.015	0.000	
Community Development Block Grant	4.905	4.716	4.959	4.950	
Colonias Initiative	0.000	0.016	0.000	0.000	
Urban Development Action Grants (rescission)	—	-0.030	-0.030	-0.030	
Sec.108 loan guarantee; subsidy	0.007	0.000	0.000	0.007	
Brownfields redevelopment	0.025	0.000	0.025	0.025	
HOME Investment Partnerships	1.987	2.197	2.064	1.975	
Homeless Assistance Grants	1.217	1.325	1.242	1.325	
Samaritan Initiative	—	0.050	0.000	0.000	
Subtotal: Community Plan. & Dev.	*8.486*	*8.571*	*8.602*	*8.568*	
Housing, special populations [b]	1.027	*1.025*	*1.024*	1.034	
Housing for the elderly	*0.776*	0.774	0.773	*0.783*	
Housing for the disabled	*0.251*	0.251	0.251	*0.251*	
Housing Counseling Assistance	—	0.045	0.000	0.000	
Rental housing assistance (rescission)	-0.100	-0.303	-0.303	-0.303	
Federal Housing Administration (net)[c]	-2.212	-2.359	-2.359	-2.359	
GNMA (net)[d]	-0.348	-0.307	-0.307	-0.307	
Research and technology	0.047	0.051	0.047	0.047	
Fair housing activities	0.046	0.050	0.046	0.050	
Office, lead hazard control	0.175	0.136	0.130	0.175	
Salaries and expenses	0.527	0.536	0.547	0.536	
Working capital fund	0.275	0.276	0.090	0.240	
Inspector General	0.074	0.076	0.076	0.078	
Office of Federal Housing Enterprise Oversight[e]	0.000	0.000	0.000	0.000	
Manufactured Housing Offsets[e]	0.000	0.000	0.000	0.000	
Rescissions; legislative savings; supplemental	-0.008	—	—	—	
Subtotals:	31.009	31.729	31.831	31.886	
Appropriations	*(36.096)*	*(35.876)*	*(37.046)*	*(37.100)*	

Programs	FY2003	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Rescissions; total	*(-1.708)*	*(-0.633)*	*(-1.705)*	*(-1.705)*	
Negative subsidy	*(-2.978)*	*(-3.146)*	*(-3.146)*	*(-3.146)*	
Offsetting collections	*(-.401)*	*(-.367)*	*(-.363)*	*(-.363)*	
Total; net (w/o advance from previous FY)	**31.009**	**31.729**	**31.831**	**31. 886**	

Source: H.Rept. 108-235, updated with floor amendments by CRS and S.Rept. 108-143.

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

[a] The Administration has requested a direct appropriation 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 amounts for the elderly and the disabled. The House adopted the Administration's proposal to fund the programs separately. The Senate Appropriations Committee did not accept the Administration's proposal to split the account; instead, the Senate provides $1.034 billion for the combined account.

[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] Amounts less than one million dollars do not appear in this table. In FY2003, $195 thousand in surplus offsetting receipts was collected by HUD from the Office of Federal Housing Enterprise Oversight and $85 thousand was collected from the Manufactured Housing Fees Trust Fund.

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. 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 $4.8 billion in new budget authority for FY2004 and has indicated that $300 million is available for rescission. Combined, the President requested $18.4 billion for the Section 8 programs (including the $1.1 billion in unobligated balances).

The House appropriations bill, H.R. 2861, does not adopt the HANF proposal's funding structure. Instead, the House bill would provide $18.6 billion for the HCF for FY2004, up $150 million from the President's request. Of that amount, $4.7 billion would be provided for project-based rental assistance and $13.8 billion would be provided in direct appropriations for vouchers. The House proposes to rescind the $1.1 billion in carryover funds that the Administration highlighted for program use as well as the $300 million the Administration highlighted for rescission.

The Senate Appropriations Committee bill also rejects the President's HANF proposal. The Committee did adopt the President's funding level for Section 8, providing $18.4 billion for FY2004, less than the $18.6 billion provided by the House. The bill would also rescind $1.4 billion in unobligated balances.

What is HANF? The Housing Assistance for Needy Families (HANF) (H.R. 1841, S. 947) program would replace the existing voucher program, which is currently administered by local PHAs, with a block grant provided to states. In the Administration's FY2004 congressional budget justification, HUD asserts that state administration would increase the utilization of vouchers, eliminating the large amounts of unobligated balances available for recapture every year. They argue that states would have the flexibility to quickly adjust the program to meet local and regional needs. Critics of the proposal 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 tight 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, if passed, would be fully implemented in FY2005. The table below 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 RL31930, *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 2 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. For FY2004, the Administration requested $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 estimated that its request for renewals, $16.2 billion, would renew approximately 1.9 million vouchers and approximately 870,000 project-based contracts.

Table 3. 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 remain 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 could not be required to pay more than 30% of their incomes towards rent, but could 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: Congressional Research Service, from CRS Report RL31930, *The Housing Choice Voucher Program, Funding, and Issues in the 108th Congress.*

The House-passed appropriations bill would provide a total of $16.5 billion for Section 8 renewals. Of that amount, $11.73 billion would be provided to renew expiring vouchers (slightly more than the Administration requested) and $4.72 billion would be provided to renew expiring project-based contracts.

The Senate Committee bill would provide $16.2 billion for renewals in FY2004–$11.5 billion for voucher renewals and $4.7 billion for project-based renewals.

In prior years, HUD had set aside funding for each PHA based on the number of vouchers the PHA was authorized to lease, rather than the number of vouchers it was actually using (leasing). Every time a PHA would have less than 100% utilization of vouchers, HUD would come in at the end of the year and recapture unobligated balances. This system resulted in HUD recapturing over a billion dollars in unobligated balances every year. In FY2003, Congress adopted a new funding structure for voucher renewals. This structure provides funding to local PHAs only for those vouchers that they are leasing, or can reasonably expect to lease, rather than the full number that they are authorized to lease. This change provides HUD with the flexibility to move money to where it is needed in a more timely manner and is expected to reduce the size of unobligated balances available for recapture. Both H.R. 2861 and S. 1584 continue this new funding structure.

The President's FY2004 budget request has raised some funding concerns among low-income housing advocates. Several are worried that there may not be adequate funds under the Administration's FY2004 budget request to renew all currently authorized vouchers.[1] Analyzing HUD data, the Center on Budget and Policy Priorities (CBPP) has concluded that the Administration's funding request for vouchers could result in insufficient funding in 2004 to support as many as 90,000 housing vouchers now in use. HUD's FY2004 funding request was based on data from 2001 and 2002, which indicated that fewer vouchers were being used and that voucher costs were lower than CBPP estimated using FY2003 data.

If the funding provided by Congress is insufficient to renew all existing vouchers, then HUD has several options. It could dip into unspent funds from prior years to cover any shortfall, although it is unclear how much is available from this source. HUD could also direct PHAs not to reissue vouchers that become available, which would cut down on costs without evicting anyone. Finally, if these other strategies did not work, HUD could direct PHAs to take back subsidies from families.

In recognition of a possible funding shortfall, H.R. 2861 increased the Housing Certificate Fund (HCF) by $150 million (taking the money from HUD's working capital fund that is used to make improvements to computers and other information technology systems). Some housing groups say this is still too little to pay for all renewals and that, even with the increase, more than 60,000 vouchers would still be at risk. The Senate Appropriations Committee acknowledges, in their committee

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[1] *New HUD Data Show Families Will Likely Lose Housing Vouchers If Congress Approves President's Budget Request,* Center on Budget and Policy Priorities, July 11, 2003.

report, that the funding level they provided might not be adequate to cover all renewals and that they expect the Administration to address any budget shortfall through a FY2004 supplemental appropriations request.

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.

H.R. 2861 proposes $569 million for the central reserve fund, up substantially from FY2003, but down slightly from the Administration's request. The House did not include a $100 million set-aside for HANF costs, nor did it provide the Secretary with the authority to use central reserve funds to create incremental vouchers.

S. 1584 would provide $461 million for the central reserve fund. Like the Administration's request, up to $36 million could be used to provide vouchers to non-elderly, disabled families; however, unlike the Administration's request, this bill would not set aside any money for state HANF start-up costs.

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.

The House appropriations bill, H.R. 2861, does not include any funding for new incremental vouchers and does not permit the Secretary to use central reserve funds for new incremental vouchers. S. 1584 would permit HUD to use up to $36 million from the central reserve fund for incremental vouchers for non-elderly, disabled families, if the Secretary determines that the funds are not needed to support existing vouchers.

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 as a part of 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). Funding for tenant protection vouchers, like other vouchers, does not include administrative costs.

H.R. 2861 would provide $206 million for tenant protection vouchers, down both from the FY2003 funding level as well as the Administration's request. S. 1584 would provide $252 million for tenant protection vouchers, equal to the Administration's request.

Administrative Costs. The voucher program is managed at the local level by quasi-governmental bodies called 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. This request would provide 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.

The House bill, H.R. 2861, would provide $1.21 billion for voucher administrative costs in FY2004, which is up from the President's request. The House bill maintains provisions included in the FY2003 appropriations law that limited the administrative fee reserves maintained by PHAs to 5% and prohibited the use of administrative fees for programs other than the voucher program. In addition, the House bill includes new provisions which direct the Secretary to distribute administrative fees to PHAs, in a manner prescribed by the Secretary, in an amount not to exceed the amount provided in the bill. Under current practice, the Secretary uses a formula to determine administrative fees earned by PHAs. As a result, the cumulative amount owed to PHAs can vary based on a number of factors, including utilization rates and fair market rents, and therefore, could conceivably rise above the amount provided in an appropriations bill. The provision in the House bill would direct the Secretary to ensure that the amount of administrative fees paid to PHAs stays at or below the appropriated amount, which may mean that the Secretary will have to adopt a new formula for providing administrative fees, potentially resulting in lower fees paid to PHAs.

S. 1584 would provide $1.3 billion for administrative fees for the voucher program, greater than the amount requested and recommended by the House. The Senate bill would maintain the 5% cap on administrative fee reserves introduced in FY2003, however, the bill does not include the language from the House bill that could potentially limit PHA administrative fee earnings.

For contract administrators, both the House and Senate bills provide funding at the President's requested level of $100 million.

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.

The amount provided in H.R. 2861 for FSS coordinators in FY2004 would match the amount provided in FY2003 ($48 million), but would be significantly less than the amount requested by the Administration ($72 million). S. 1584 would fund FSS coordinators at the President's requested level.

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 $1.07 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. Therefore, it is unclear how much HUD will actually have available in unobligated balances in FY2004.

Both H.R. 2861 and S. 1584 accept the Administration's estimate of unobligated balances and both chose to rescind the full $1.37 billion that HUD claims to have available.

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. The House also proposes to maintain the advance appropriation funding structure.

Table 4 shows a breakdown of funding for the vouchers and project-based programs.

Table 4. FY2003 and FY2004 Appropriation Levels for Vouchers and Project-based Rental Assistance

($ in billions)

	FY2003 enacted[a]	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Budget authority: Vouchers/HANF					
New appropriations	12.604	12.535	13.757	13.611	
Advance appropriation from prior year	(4.172)	(4.200)	(4.200)	(4.200)	
Current-year appropriation	(8.431)	(8.335)	(9.557)	(9.411)	
Budget authority available from unobligated balances	2.838	1.072[b]	1.072[b]	1.072[b]	
Budget authority rescinded or not expected to be used in specified FY	-2.838[c]	0	-1.072[b]	-1.072[b]	
Subtotal	***12.604***[d]	***13.607***[e]	***13.757***[e]	***13.611***[e]	
Breakdown: Vouchers/HANF					
Contract renewals	10.870	11.482	11.725	11.484	
New incremental vouchers	0.000	0.036	0.000	0.036[g]	
Tenant protection vouchers	0.232	0.252	0.206	0.252	
Administrative fees	1.065	1.192	1.209	1.339	
Central reserve fund	0.389	0.473	0.569	0.425[h]	

	FY2003 enacted[a]	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Funds to states for HANF start-up costs	0.000	0.100	0.000	0.000	
Family self sufficiency coordinators	0.048	0.072	0.048	0.072	
Audit Costs	0.000	0.000	0.000	0.003[i]	
Subtotal	***12.604***	***13.607***	***13.757***	***13.611***	
Budget authority: Project-based rental assistance					
New appropriations	4.507	4.823	4.823	4.823	
Budget authority available from unobligated balances	0	0.300[f]	0.300[f]	0.300[f]	
Budget authority rescinded or not expected to be used in specified FY	0	-0.300	-0.300	-0.300	
Subtotal	***4.507***	***4.823***	***4.823***	***4.823***	
Breakdown: Project-based rental assistance					
Project based vouchers	4.309	4.720	4.720	4.720	
Contract administrators	0.195	0.100	0.100	0.100	
Working capital fund	0.003	0.003	0.003	0.003	
Subtotal	***4.507***	***4.823***	***4.823***	***4.823***	
Tenant-based and project-based combined funding level	**17.111**	**18.430**	**18.580**	**18.434**	

Source: This table was prepared by the Congressional Research Service using data from the FY2003 Consolidated Appropriations Conference Report (Rpt. 108-10), the HUD FY2004 Congressional Justification, H.Rept. 108-235 and S.Rept. 108-143.

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

[b] 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).

[c] 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.)

[d] 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."

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

[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).

[g] Amount available for set aside within the Central Reserve Fund to provide new, incremental vouchers to non-elderly, disabled households.

[h] Amount reduced by $36 million, which is available, at the Secretary's discretion, to provide new, incremental vouchers to non-elderly, disabled households.

[i] S. 1584 proposes to set-aside $3 million within the HCF to fund an outside, independent audit conducted by a major accounting firm to determine the status of all funds within the account, obligated and unobligated for all programs for this fiscal year and prior and subsequent fiscal years.

Public Housing Programs. The public housing program is designed to provide safe, decent and affordable housing (HUD defines "affordable" housing as having costs that require a family to pay no more than 30% of its adjusted income for rent) 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.

H.R. 2861would provide $3.6 billion for the Public Housing Operating Fund, an increase over the FY2003 level and the President's request. Of that amount, the House bill would transfer $10 million to the Department of Justice to be used for efforts to fight crime and drugs in public housing. This transfer was not proposed by the Administration. The House bill does not adopt the President's proposal to set-aside Operating Fund dollars for the ROSS program. However, the House also proposes to set aside Capital Fund dollars for the ROSS program, as has been done in the past (see discussion below).

S. 1584 would provide $3.58 billion for the Operating Fund for FY2004, the same level that was provided in FY2003. As in the House bill, $10 million would be available for transfer to the Department of Justice.

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.

The final report of the Public Housing Operating Cost Study was released in June 2003 [http://www.gsd.harvard.edu/research/research_centers/phocs/]. The study makes several recommendations including using FHA properties to bench-mark future operating costs and converting the existing public housing system to a property-based management structure. Since its release, the study has generated much controversy, in particular its recommendations have received some resistance from the advocacy groups who represent PHAs. HUD states that it has undertaken rule making action based on the recommendations of the study; advocacy groups and some Members of Congress are calling for the creation of a negotiated rule making committee, including advocacy groups and industry representatives, to complete work on the regulations. HUD has indicated that it would like to finalize a new formula by the end of 2003.

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 do not become unsafe for residents or 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 believes 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.

The House appropriations bill, H.R. 2861, would provide $2.7 billion for the Capital Fund for FY2004, an amount higher than the Administration's request and level with FY2003. The Committee rejected the Administration's PHRI initiative, stating that many PHAs have already pursued public-private financing partnerships under existing statutory authority. The House provided for the following set-asides in the Capital Fund for FY2004: $55 million for ROSS; $40 million for emergency disaster reserve; $11 million for the working capital fund; and $51 million for technical assistance. The House did not provide a set-aside for the demolition of obsolete public housing units since they provided HOPE VI funding, which can be used for that purpose (see below). However, the House did provide for $429 million to be set aside from the funds available for formula allocation to be distributed to those PHAs who had obligated all of the Capital Funds they had received for FY2001 and FY2002. This "timely expenditure bonus" was included in the FY2003 appropriations bill and is designed to reward those housing authorities who are fully utilizing their Capital Fund allocations.

S. 1584 would provide $2.6 billion for the Capital Fund for FY2004, an amount less than the House-passed level and equal to the amount requested by the Administration. While the committee did not adopt the Administration's PHRI initiative, the committee did voice support for PHAs seeking private financing. To support their efforts, the committee bill would establish a new public housing development loan guarantee program. The bill would allow the Secretary to make

$125 million of the Capital fund available for a loan loss reserve and other purposes implementing the loan guarantee. In addition to the loan guarantee set-aside, the Senate bill would set aside $400 million to provide timely expenditure bonuses.

HOPE VI Revitalization of Distressed Public Housing. The HOPE VI program 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 passed H.R. 1614 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 – namely the demolition of the nation's worst public housing – 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.

H.R. 2861would provide $50 million for the HOPE VI program, $5 million of which would be available for technical assistance. S. 1584 would provide $195 million for HOPE VI, $3 million of which would be available for technical assistance.

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 $646.6 million, about $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. For FY2004, S. Rept, 108-143, repeats his directive and directs HUD to report on the use of Native owned firms under this account by April 15, 2004.

The House-approved bill recommends $661.6 million for FY2004, an increase of $15 million above HUD's request and $16.8 million more than provided in FY2003. The Senate bill approves $646.6 million, the same as the budget request.

Community Planning and Development

Housing for Persons with AIDS (HOPWA). The President requested $297 million for the HOPWA program for FY2004, up from the $290 million enacted in FY2003. The House appropriations bill, H.R. 2861, would fund HOPWA at $302 million, $5 million above the President's requested level. This increase was added on the House floor and was offset by a reduction in National Science Foundation funding. S. 1584 would provide $291 million, less than the President's request and the House-passed level.

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 rental assistance. Funds may also be used for mortgage or utility payments to prevent homelessness of a tenant or mortgagor 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.

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, believing that this housing program is sufficiently different from Department of Agriculture programs to merit separate appropriations.

H.R. 2861 proposes $25 million for the Rural Housing and Economic Development program for FY2004, requiring that HUD award funds for this program by June 30, 2004. The Senate bill, S. 1584, also recommends $25 million.

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 5 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 9 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 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.

The House-passed bill, H.R. 2861, recommends $15 million for FY2004 for continued grant funding for the 15 urban Round II EZ/ECs. S. 1584, as reported on September 15, 2003 by the Senate Appropriations Committee, does not include an appropriation for the program for FY2004. The Committee report (S.Rept.108-143) notes that "the Committee believes that this program was intended to be funded as a mandatory program and not as an obligation of this bill," and expects the Senate Finance Committee to fund this program as mandatory. The report also notes that an Inspector General was critical of the poor recording and misuse of funds found during an audit of five selected EZ programs.[2]

Community Development Block Grants. 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.[3] 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 $4.716 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 $280 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 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.

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.

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[2] The IG report is available on the web at [http://www.hud.gov/offices/oig/sar49.pdf.].

[3] 42 U.S.C. 5301.

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.

H.R. 2861, as passed by the House on July 25, 2003, recommends a total appropriation of $4.959 billion, including $4.539 billion for the formula portion of the CDBG program, and $420.4 million in set-asides and earmarks. The House bill includes $137.5 million in earmarked funds under the Economic Development Initiative, which represents 32.7% of the funds targeted for earmarks and set-asides. In addition, the House would provide $26.5 million in university-based community development programs intended to encourage collaborative efforts between institutions of higher education and their surrounding neighborhoods and support professional training of minority students in the fields community and economic development.

As approved by the House, H.R. 2861 would appropriate $243 million more in total CDF funds than the $4.716 billion requested by the Administration and $125.2 million more in set-asides and earmarks. Most notably, the House bill includes $137.5 million in Economic Development Initiative (EDI) funded earmarks while the Administration's budget request does not include funding for the program.

The Senate appropriations bill, S. 1584, would appropriate $4.950 billion for the program, including $4.546 billion for CDBG formula grants and $404.3 million in various set-aside and earmarked programs and projects. The bill includes $140 million for $330 EDI earmarked projects and $21 million for 20 NI earmarked projects. The bill would also appropriate $60 million for the Youth Build program and $32.5 million in support university-based community development education and revitalization efforts. The Committee report voiced concern about the lack of private funding to support and supplement federal Youth Build appropriations.

The following table provides a breakdown of the actual FY2003 appropriations and the Administration's FY2004 proposed budget request for the CDF account and the recommendations of the House as outlined in H.R. 2861 and the accompanying H.Rept. 108-235, and the Senate, as outlined in S. 1584 and its accompanying report (S.Rept. 108-143).

Table 5. 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
Subtotals:				
Set-asides (see below for details)	*565.4*	*280.0*	*420.4*	*404.3*
Formula-based (entitlement communities)	*3,037.6*	*3,100.3*	*3,177.0*	*3,182.0*
Insular areas	*0.0*	*7.0*	*0.0*	*0.0*
Formula-based (state allocation)	*1,301.9*	*1,328.7*	*1,361.6*	*1,363.7*
Set-asides:				
Indian Tribes	*70.5*	*72.5*	*72.0*	*72.5*
Housing Assistance Council	*3.3*	*3.0*	*3.3*	*3.3*
National American Indian Housing Council	*2.4*	*2.2*	*2.4*	*2.6*
National Housing Development Corporation	*5.0*	*0.0*	*5.0*	*0.0*
Operating expenses	*(2.0)*	*(0.0)*	*(2.0)*	*(0.0)*
Nat. Council of La Raza HOPE Fund	*5.0*	*0.0*	*5.0*	*0.0*
Technical assistance	*(0.5)*	*(0.0)*	*(0.5)*	*(0.0)*
HOPE Fund, other activities	*(4.5)*	*(0.0)*	*(4.5)*	*(0.0)*
Section 107	*48.8*	*37.9*	*43.0*	*52.5*
Insular areas	*(7.0)*	*(0.0[a])*	*(7.0)*	*(7.0)*
Prog. management and analysis	*(0.0)*	*(3.0)*	*(0.0)*	*(3.0)*
Native Hawaiian Housing Block Grant	*(9.5)*	*(0.0)*	*(9.5)*	*(10.0)*
Training and Technical assistance	*0.0*	*0.0*	*0.0*	*(0.4)*
University Programs	*(32.3)*	*(31.9)*	*(26.5)*	*(32.5)*
Historically Black Colleges & Univ.	*(9.9)*	*(10.0)*	*(10.0)*	*(11.0)*
HBCU technical assistance	*0.0*	*(3.0)*	*(2.0)*	*(2.0)*
Hispanic Serving Institutions	*(6.4)*	*(5.5)*	*(6.5)*	*(7.5)*
Community Development Work Study	*(3.0)*	*(3.0)*	*(3.0)*	*(3.0)*
Alaskan Native and Native Hawaiian Serving Institutions	*(3.0)*	*(2.4)*	*(0.0)*	*(4.0)*
Tribal Colleges and Universities	*(3.0)*	*(3.0)*	*(0.0)*	*(3.0)*
Community Outreach Partnership	*(7.0)*	*(8.0)*	*(7.0)*	*(4.0)*
Working Capital Fund for the development of information technology systems	*3.4*	*4.9*	*4.9*	*4.9*
Wellstone Center for Community Building	*8.9*	*0.0*	*0.0*	*0.0*
Self-Help Homeownership Opportunity	*25.1*	*65.0*	*28.0*	*12.0*
Capacity building	*(0.0)*	*(3.0)*	*(0.0)*	*(0.0)*
Capacity Building for Community Development and Affordable Housing	*28.1*	*25.0*	*33.2*	*35.5*

Programs and set-asides	FY2003 enacted	FY2004		
		Request	House	Senate
National Community Development Initiative (NCDI)[b]	*(23.1)*	*(20.0)*	*(28.2)*	*(31.5)*
Rural area and tribal lands[c]	*(5.0)*	*(5.0)*	*(5.0)*	*(5.0)*
Habitat for Humanity	*4.2*	*4.5*	*5.0*	*(4.0)*
Indian tribes SHOP	*(0.0)*	*(0.0)*	*(0.7)*	*(0.0)*
Neighborhood Initiative Demonstration	*41.8*	*0.0*	*21.0*	*21.0*
Youthbuild	*59.6*	*65.0*	*65.0*	*60.0*
Youthbuild in rural and underserved areas	*(10.0)*	*(10.0)*	*(10.0)*	*(10.0)*
Youthbuild USA capacity building	*(2.0)*	*(2.0)*	*(2.0)*	*(2.0)*
Economic Development Initiative	*259.3*	*0.0*	*137.5*	*140.0*
Total: CDF, CDBG	**4,904.9**	**4,716.0**	**4,959.0**	**4,950.0**

Source: U. S. Dept. of Housing and Urban Development and House Appropriations Report (H.Rept. 108-235) and Senate Appropriations Report (S.Rept. 108-143).

Note: Totals may not add due to rounding. Italics indicates entries subsumed under CDBG line in **Table 2**; 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.

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 $41.8 million for FY2003, and the Economic Development Initiative (EDI), which received $259.3 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 accompanying the FY2003 VA-HUD, and Independent Agencies 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 $565.4 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 (53%) 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.

H.R. 2861 would appropriate $137.5 million for EDI projects and $21 million for NI activities. Combined, these programs represent 37.7% of the $420.4 million in CDF set-asides and earmarks recommended by the House for FY2004. The bill does not include funding for the Administration's *Colonias* Gateway Initiative. The bill, as requested by the Administration in its FY2004 budget submission, does not include additional loan commitments for the Section 108 loan guarantee program. The report accompanying H.R. 2861 assumes that $6,000,000 in unobligated balances from prior year credit subsidy appropriations and $189,344,000 in unused loan commitment authority will be available in FY2004 for new Section 108 loan commitments. This assumption is based on current estimated usage of funds appropriated in FY2003.

The Senate Committee bill recommends an appropriation of $140 million and $21 million for NI activities. The two programs represent 40% of the $404.3 million in CDF set-asides recommended by the Senate Appropriations Committee. Like the House version of H.R. 2861, the Senate bill does not include funding for the Administration's *Colonias* Initiative. It would reduce funding for the SHOP program to $12 million, $13 million less than appropriated in FY2003. Contrary to the House-version of the bill and the Administration's budget request, which provided no new funding for the Section 108 loan guarantee program, the Senate Appropriations Committee would appropriate $6.325 million in subsidy funding in support of $275 million in Section 108 loan guarantees. It noted that while the program has had an uneven history, it allows communities to leverage private capital for large projects through a pledge of future CDBG funds.

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, believing that this would 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 House-passed H.R. 2861 recommends $25 million for Brownfields Redevelopment, disagreeing with the Administration that the current program is duplicative of brownfields activities funded through the Environmental Protection Agency. To avoid duplication, the Committee report notes that it expects HUD to closely coordinate its efforts with EPA. The Senate version of the bill also recommends an appropriation of $25 million. In an effort to support program flexibility, the Senate report notes that Brownfield Redevelopment Grants are no longer required to be linked to Section 108 loan guarantees.

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 House-approved bill, H.R. 2861, would provide $2.064 billion for the program. S. 1584, as passed by the Appropriations Committee, would provide 1.975 billion for the program, $12 million less than the FY2003 enacted level and $222 million less than the budget request.

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) to assist 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. H.R. 2861 would provide $125 million for the program as a set-aside within HOME. S. 1584 would provide $50 million, and the Committee notes its objection to any proposals by HUD which would tie the use of HOME funds for homeownership to the allocation of funds under the American Dream Downpayment Fund. 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. H.R. 2861 and S. 1584 would fund the program at $40 million within the HOME program. The Senate Committee urges HUD to use the program as a means of educating homebuyers on the dangers of predatory lending in addition to the stated purpose of expanding homeownership opportunities.

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. H.R 2861 and S. 1564 do not include funding for the Lead Hazard Demonstration program.

H.R. 2861 would provide that up to $2.1 million be transferred to the Working Capital Fund for the development and modification of technology systems serving community development programs and activities.

Homeless Assistance Grants. Homeless Assistance Grants is the blanket title given to the four homeless programs authorized by the McKinney-Vento Homeless Assistance Act (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 combining 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 $1.2 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 House appropriations bill, H.R. 2861, would provide $1.24 billion for the existing Homeless Assistance Grants programs, about $9 million less than the Administration's request. Of this amount, 30% of the funds not dedicated to S+C renewals must be used for permanent housing, under the House language. No language in the House bill or report refers to the consolidation of the competitive homeless programs; however the bill does direct the Secretary to fully renew all S+C vouchers. This amount does not include funding for the President's proposed Samaritan Initiative, which the House chose not to adopt since the authorizing legislation had not yet been introduced. The House does not adopt the President's request to transfer the EFSP program from FEMA to HUD.

The Senate Committee version of the HUD spending bill would provide $1.325 for Homeless Assistance Grants, slightly less than the Administration's request, but more than proposed by the House. Of that amount, 30% of the non-S+C dollars would be required to be spent on permanent housing and $12 million would be set aside to support the Homeless Management Information System (HMIS), which HUD has been developing to collect nationwide data on the homeless, and other technical assistance.

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.

For more information on federal homeless programs, see CRS Report RL30442, *Homelessness: Recent Statistics, Targeted Federal Programs and Recent Legislation*.

Housing Program Administration

Housing for Special Populations (Elderly and Disabled). The Housing for Special Populations account is made up of two programs: the Section 202 program for the elderly and the Section 811 program for the disabled. They provide capital grants for the development of additional new subsidized housing for these populations. For FY2004, the Administration has proposed abolishing the Housing for Special Populations account and replacing it with two separate accounts: Housing for the Elderly (Section 202) and Housing for the Disabled (Section 811).

The President proposed a funding level 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 $470,000 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.

H.R. 2861, the House appropriations bill, agreed to split the Housing for Special Populations account. For the Housing for the Elderly account, the bill would provide $773 million, slightly less than the Administration's request. However, the bill states that an additional $16 million will be available for the account from excess funding provided in FY2003. The bill would set aside $50 million for service coordinators, $25 million to facilitate the conversion to assisted living.

S. 1584 would not split the Housing for Special Populations account, as proposed by the Administration. Instead, it would provide $1.03 million, of which $783 million would be designated to provide housing for the elderly. Of that $783 million, $30 million would be available to facilitate the conversion to assisted living and $50 million would be available for service coordinators.

The Administration requested $251 million for the Housing for the Disabled account (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; requiring grantees to use funds in a timely manner or face recapture; and allowing the Secretary the authority to waive regulatory and statutory provisions in order to streamline the program.

The House appropriations bill, H.R. 2861, would provide $251 million for the Section 811 Housing for the Disabled program. The bill notes that an additional $6 million is also available in this account from FY2003 excess funds. The bill maintains the 25% voucher flexibility, but would not grant the Secretary the requested waiver authority.

As noted earlier, S. 1584 would not split the Housing for Special Populations account into two accounts, as proposed by the Administration. Of the $1.03 billion the Senate would provide, $251 million would be available for housing for the disabled. Like the House, the Senate would allow up to 25% of these funds to be used to provide vouchers to the disabled.

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 and H.R. 2861 and S. 1584 would provide 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 Budget, H.R. 2861, and S. 1584 and would provide a loan limitation of $50 million for direct loans under the MMI/CHMI fund, a $50 million reduction from the FY2003 level. The direct loans are made to nonprofit and governmental entities for the purchase of HUD-owned single family properties which had been insured under the fund.

The Budget, H.R. 2861, and S. 1584 would provide $15 million for the subsidy cost of loan guarantees under the General Insurance and Special Risk Insurance (GI/SRI) fund which would subsidize up to $25 billion in insurance commitments on loans under the fund, an increase of $1 billion over the level approved 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 Budget, H.R. 2861, and S. 1584 propose a direct loan limitation of $50 million for the GI/SRI fund, the same limit as in FY2003. Up to $30 million would be used to facilitate the sale of HUD-owned multifamily properties. Up to $20 million would used to facilitate the sale of HUD-owned single family properties to non-profit and governmental agencies for the ultimate resale to low- and moderate-income borrowers.

The Budget, H.R. 2861, and S. 1584 request administration expenses of $359 million for the MMI/CHMI accounts, an increase of $13 million over the FY2003 level. The Budget, H.R. 2861, and S. 1584 request administration expenses of $229 million for the GI/SRI accounts, an increase of about $7 million over the FY2003 level.

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.

The Senate Committee notes that it remains concerned that HUD has failed to calculate adequately the amount of credit subsidy needed to support its multifamily mortgage insurance programs. The Committee notes that it expects HUD to institute a computer program that accurately identifies the risk of default and financial risk to the insurance fund. The Committee also directs HUD to issue any changes in insurance premiums through notice and comment rule making, as required by law.

The Senate Committee notes its disappointment in FHA's failure to notify the appropriate Congressional committees that FHA may not have had adequate authority to cover loan commitments for its FHA Single Family Mortgage Insurance program for the remainder of FY2003. The Committee notes its concern that Congress was never notified regarding the potential risk of termination to this homeownership program. To ensure proper notification in the future, the Committee directs HUD to continue submitting reports required by section 3(b) of P.L. 99–289 as well as weekly updates to the House and Senate Committees on Appropriations regarding FHA's commitment levels following notification that the FHA's mortgage insurance commitments have exceeded 75% of the authorized limit.

The Senate Committee notes that 83% of the portfolio of the FHA Section 242 Hospital Insurance program is in the state of New York. The Committee is concerned that this focus in a single state constitutes unacceptably high risk and that the HUD should take steps to reduce that concentration in order to ensure the long-term viability of the program and mitigate risks for the General Insurance Fund. The Committee directs HUD to report to the Committee by June 30, 2004 on its efforts to reduce geographic concentration of risk in the Section 242 program. The report should also identify alternatives to HUD's underwriting of hospitals, assess the overall financial risk to HUD in underwriting hospital insurance, determine how risk is assessed, find ways to mitigate and minimize this risk, assess the private and public investment in hospitals and healthcare facilities, and determine how the marketplace works in meeting the healthcare facility needs of rural and urban areas. HUD is directed to consult with the Department of Health and Human Services on these issues for the final report.

The Senate Committee urges HUD to take more proactive steps to prevent foreclosures in its FHA single family programs. During the purchase of FHA-insured houses in revitalization areas, FHA is directed to require one or more of the following: an appraisal conducted by a state-certified appraiser, with experience in the market and certified by the city; a home inspection; or the presence of someone with a fiduciary responsibility to the buyer, such as a buyer's realtor, or other agent representing the buyer's interest. HUD is also urged to reinstitute its policy which required that new homes purchased with FHA insurance receive either an FHA-certified inspection or a 10-year insurance-backed warranty.

In its administrative provisions, S. 1584 would require that within 90 days of enactment of the bill, HUD would promulgate a regulation to institute a ''good neighbor'' policy in the disposition of multi-family housing which had been acquired by HUD through default and foreclosure. The regulation would provide that regardless of whether purchasing the property directly from HUD or through states or localities, prospective purchasers of the properties would be certified as being in compliance with state and local housing codes with regard to other properties owned by such purchasers. The intent of the regulation would be to prevent the sale of properties to parties demonstrating a pattern of owning housing with severe housing code violations.

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 HUD budget proposes $32.4 million in budget authority for the operation of OFHEO.

There has been increased criticism in recent months in the Congress and elsewhere of OFHEO for what some see as inadequate oversight of Fannie Mae and Freddie Mac. Legislation (H.R. 2575) has been introduced to move oversight from HUD to the Treasury Department.

The HUD budget request for FY2004 says that 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.

The House bill, H.R. 2861, provides $32.4 million for FY2004, to be offset to zero as fees are received from Fannie Mae and Freddie Mac during the fiscal year. The Senate bill, S. 1584, also recommends $32.4 million, the same as the HUD budget request. The Senate Committee remains very concerned regarding the competency of the OFHEO office to provide the necessary financial oversight of Fannie Mae and Freddie Mac.

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.

H.R. 2861 would provide a total of $46 million for Fair Housing programs; $25.75 million for FHAP and $20.25 million for FHIP. S. 1584 would provide $50 million for Fair Housing programs; $23 million for FHAP and $27 million for FHIP. The Senate Committee report emphasizes that state and local agencies under FHAP should have the primary responsibility for identifying and addressing discrimination in the sale, rental, and financing of housing and in the provision of brokerage services.

Lead-Based Paint Hazard Reduction. HUD is proposing $136 million for the Lead-Based Paint Hazard Control Program for FY2004, $39.9 million 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 the Center for Disease Control and Prevention reports that while 890,000 children have elevated blood levels, this is down from1.7 million in the late 1980s. Despite this, the Senate Appropriations Committee says that lead poisoning remains a serious childhood environmental condition, with some 4.4% of all children aged 1 to 5 years having elevated blood levels. This percentage, the Committee reports, is much higher for low-income children living in older housing.

The House-approved bill, H.R. 2861, would provide $130 million for the Lead Hazard Control program in FY2004, instead of the $136 million requested in the budget and nearly $45 million less than appropriated for FY2003. Included in the $130 million, $10 million is recommended for Operation LEAP (Lead Elimination Action Program), a new initiative requested in the budget to leverage private sector resources to eliminate lead-based paint hazards in low-income housing.

The Senate Committee bill, S. 1584, recommends $175 million for the lead hazzard control program, $39 million more than the budget request, near level with the FY2003 funded amount, and $45 million more than the House approved amount of $130 million. The Senate Committee also recommends $50 million for the lead hazzard reduction demonstration program which was established in FY2003 as a set aside within the HOME program, to focus on major urban areas where children are disproportionately at risk for lead poisoning. The House bill does not include funding for this demonstration program.