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## The Budget of the Department of Housing and Urban Development (HUD) FY1999

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### **ABSTRACT**

This report provides an overview of FY1999 budget request for the Department of Housing and Urban Development (HUD). Initially, the report is limited to the Administration's budget request for HUD. The report is updated periodically as legislative action occurs on FY1999 appropriations for HUD and as action occurs on authorizing legislation to implement the budget proposals.

# The Budget of the Department of Housing and Urban Development (HUD) FY1999

## Summary

In his first submission of a budget for the Department of Housing and Urban Development (HUD) in FY1999, President Clinton asked for \$32.06 billion, an increase of approximately \$8 billion over the HUD appropriation for FY1998. The Office of Management and Budget (OMB) in its "passback" response to the President's request, concluded that \$23.76 billion would be a feasible amount for HUD in FY1999, even though that amount would be a decrease of \$325 million from the FY1998 appropriation.

In his final budget submission to Congress, President Clinton requested \$25.2 billion for HUD in FY1999, a \$1.5 billion increase over FY1998 appropriations. High points of the President's budget request for HUD include: increases in affordable housing; 103,000 new housing vouchers; increases in the Community Development Block Grant (CDBG) and Community Empowerment funds; extensions of the HOME program and the creation of a HOME "bank"; increases in housing assistance for the homeless and persons with AIDS; and changes in the FHA mortgage credit program.

S. 2168, as reported by the Senate Committee on Appropriations, recommended a budget of \$24.1 billion for HUD in FY1999. This amount is \$1.1 billion less than the President's request but \$2.7 billion more than the FY1998 appropriation. In its report (S.Rept. 105-216), the Committee expressed some concerns with the agency (HUD) and the need for it to consolidate or reform existing programs rather than undertake new initiatives. S. 2168 passed the Senate on July 17, 1998.

The House bill, H.R. 4194, as reported by the House Committee on Appropriations, recommended a budget of \$26.55 billion for HUD in FY1999. This amount is \$1.7 billion more than the President's request and \$ 5.15 billion more than the FY1998 appropriation. In its report (H.Rept. 105-610), the House Committee expresses concerns with HUD's accounting of the Section 8 funds and unexpended balances in other HUD subsidized programs.

Several amendments were added to the House bill before it was passed. Three amendments that concern HUD are the attachment of H.R. 2 (the housing authorization bill) to H.R. 4194; the transfer of \$304 million recommended by the House Committee for FHA to VA for medical care; and the transfer of \$21 million recommended by the House Committee for Housing for Persons with AIDS (HOPWA) to VA for medical care. The amount of funding for HUD in FY1999 as passed by the House on July 29, 1998, is \$26.22 billion.

This report is updated as legislative action occurs on FY1999 appropriations for HUD.

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# The Budget of the Department of Housing and Urban Development (HUD) FY1999

In his submission of a budget for the Department of Housing and Urban Development (HUD) in FY1999, President Clinton asked for \$32.06 billion, an increase of approximately \$8 billion over the HUD appropriation for FY1998. The Office of Management and Budget (OMB) suggested that \$23.76 billion would be feasible for HUD in FY1999. In his final budget submission to Congress, President Clinton requested \$25.2 billion for HUD in FY1999, a \$1.5 billion increase over the FY1998 appropriations.

In S. 2168, the Senate recommends a \$24.1 billion budget for HUD in FY1999; \$1.1 billion below the President's recommendation, but \$2.7 billion more than appropriated for FY1998. S. 2168 passed the Senate on July 17, 1998.

In H.R. 4194, the House recommends \$26.22 billion for HUD in FY1999, a \$1.0 billion increase over the President's recommendation and a \$4.77 billion increase over the amount appropriated for FY1998. H.R. 4194 passed the House on July 29, 1998.

## Section 8 Housing Vouchers

The President's budget requests \$585 million to fund 103,000 new rental housing vouchers. If enacted, this would be the first time since 1994 that new vouchers to help poor families pay for housing costs were funded. Of the 103,000 requested vouchers, 50,000 would be used for the Welfare-To-Work initiative, 34,000 would be provided to move homeless persons into permanent housing, 8,800 would be targeted for elderly persons, and approximately 10,600 additional Section 8 vouchers for low-income families would be provided.

The Senate bill does not agree with the President's request for the funding of Section 8 vouchers in FY1999. The Senate is concerned with providing vouchers to disabled families living in projects designated for occupancy by the elderly, and in providing vouchers to residents who are being displaced in assisted housing. It supports vouchers for Welfare-To-Work and self-sufficiency initiatives, but only to a limited number of communities on a demonstration basis.

In H.R. 4194, the House agrees with the Senate in its concern for providing vouchers for disabled tenants living in elderly-designated housing and for residents who are being displaced. The bill also supports vouchers for welfare-to-work initiatives.

## **Welfare-To-Work Vouchers**

A top priority of the HUD budget this year is support for the creation of jobs and economic opportunity. In an effort to aid families meet the transition from welfare-to-work, \$283 million would be provided to fund 50,000 vouchers reserved for families participating in the Welfare-To-Work initiative. HUD believes that “in many parts of the country, jobs are being created far from where many welfare recipients live. Three quarters of welfare recipients live in cities or rural areas, and the vast proportion of jobs are being created in suburban areas. Even when jobs are available, long public transit commutes pose substantial barriers for welfare recipients in finding and keeping jobs.”<sup>1</sup> The welfare-to-work vouchers would enable families to live closer to their places of employment.

These 50,000 vouchers would be used to provide stable housing for families initially eligible for, or currently receiving, Temporary Assistance for Needy Families (TANF), or families that have received TANF within the past year, and are now trying to enter the workforce and become self-sufficient. The vouchers would be available on a competitive basis to local housing agencies, including Indian housing authorities, which will develop plans to use the new vouchers to support families in the transition from welfare to work. In developing the plan, the agency is to confer with state, local, or Tribal welfare agencies. “The agencies will have great flexibility to design and operate the welfare-to-work voucher program within broad national guidelines.”<sup>2</sup>

The Senate recommends that \$40 million be funded for incremental Welfare-To-Work and self-sufficiency vouchers, but limits their use to eight communities who would participate in a demonstration program. These vouchers would be available to families that have agreed to participate in the programs, and are now on public housing waiting lists.

The House bill recommends \$100 million for incremental Welfare-To-Work and self-sufficiency vouchers, and it does not limit the use of these vouchers to a demonstration program.

## **Vouchers For the Elderly**

The HUD budget request for FY1999 seeks funding for 8,800 incremental vouchers for the elderly. The Administration is requesting \$50 million to fund these additional vouchers, which would be administered through the HOME program. The Administration believes that by providing vouchers for the elderly, HUD would be able to serve a greater number of households with less expense. The Senate bill does not contain this proposal. The House does not agree with the President's request of

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<sup>1</sup> U.S. Department of Housing and Urban Development Fiscal Year 1999 Budget Summary: *Closing the Opportunity Gap*. February, 1998. p. 9.

<sup>2</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates*. February, 1998., p. Q-1

combining funding for the elderly with the HOME program, and H.R. 4194 does not contain this proposal.

For further discussion on this issue please see the section of this report entitled "Housing for Special Populations."

### **Vouchers For the Homeless**

In recent years, reducing homelessness has become one of the top priorities of HUD. In his budget request for FY1999, the President is seeking \$192 million for 34,000 vouchers for the homeless which would be available for homeless families that have been in emergency and transitional housing; have received housing counseling; and are now ready to move once again into permanent housing. This proposal is not contained in S. 2168 or H.R. 4194.

For further information on the proposed vouchers for the homeless, please see the section of this report entitled "HUD Administered Homeless Assistance."

### **Vouchers For the Expansion and Preservation of the Section 8 Program**

The Administration is requesting \$60 million for approximately 10,655 incremental vouchers and certificates for various Section 8 programs in FY1999. These programs include the HUD family unification program and the federal witness relocation program. Some of the vouchers would also be used for the settlement of housing litigation proceedings as needed.

The President's request also included \$373 million for the protection of housing tenants where either their Section 8 contracts are not being renewed, or where the management of the developments in which they live are opting-out of the program. Some of this funding (a definite amount was not requested) will be used for an estimated 17,000 vouchers for households affected by lack of contract renewals or prepayment by owners.

S. 2168 recommends \$40 million for incremental vouchers for the demonstration Welfare-To-Work and self-sufficiency programs. It also recommends a total of \$433.5 million for Section 8 relocation assistance in FY1999. This funding would be used to provide "sticky vouchers" for tenants who want to remain in housing previously eligible under the Preservation program, or tenants who occupy projects that are being prepaid. They may also be used for the family unification program and the witness relocation program.

The House bill, H.R. 4194, provides \$100 million for Welfare-To-Work vouchers. It recommends that \$433.5 million be provided for Section 8 relocation assistance, the same amount as contained in the Senate bill.

## **Homeownership Empowerment Vouchers**

In its quest to increase the availability of homeownership for all families, the Administration is proposing the use of Section 8 vouchers for mortgage payment assistance by certain households. The Administration believes that there are low-income families that would be capable of becoming homeowners if they could use their Section 8 subsidy to pay a mortgage rather than a landlord.

Under the proposed plan, in order for a family to qualify for the empowerment vouchers, it must have a source of income from employment, and it must be able to contribute to the downpayment of the home. HUD believes that by empowering these households to become homeowners, HUD would help to promote self-sufficiency and better communities.

Legislation would be required to permit the use of Section 8 vouchers for homeownership. There is no provision in either the House or Senate bill for homeownership empowerment vouchers.

## **Section 8 Contracts**

Section 8 rental assistance is requested under the Housing Certificate Fund for FY1999. The President has asked for a total of \$8.98 billion to be used as follows: \$7.2 billion for Section 8 contract renewals; \$1.3 billion for Section 8 amendments; \$60 million for 10,655 incremental rental units (vouchers described above); \$373 million for the protection of housing tenants affected by non-renewals; and \$20 million for regional opportunity counseling.

The President's budget request for HUD also contains legislative initiatives which the Department believes will provide additional savings under the Section 8 program.

The Senate bill, S. 2168, recommends \$10.0 billion for Section 8 assistance in FY1999: \$9.54 billion for expiring contracts, and \$433.5 million for Section 8 relocation assistance of which \$40 million would be used for the Welfare-To-Work demonstration program.

The House bill, H.R. 4194, provides \$10.3 billion for Section 8 in FY1999: \$9.6 billion for expiring contracts; \$97 million for contract amendments; \$433.5 million for Section 8 relocation assistance, and \$100 million for Welfare-To-Work vouchers.

## **Section 8 Contract Renewals**

HUD is proposing to renew all Section 8 contracts that are due for expiration in FY1999, assuming the cooperation of the project owners. The President's request of \$7.2 billion for this purpose would be used to renew expiring contracts for vouchers, certificates, new construction or substantial rehabilitation, moderate rehabilitation, property disposition and preservation contracts. HUD would continue to renew these contracts through the mark-to-market restructuring program



established in the VA-HUD FY1998 Appropriations Act. HUD had identified approximately \$3.7 billion in recaptured Section 8 reserve funds that it planned to use to renew contracts in FY1999. These reserves would have brought the total funding available for renewals to \$10.9 billion, but P.L. 105-174, the Supplemental Appropriations and Rescissions Act of FY1998, rescinded \$2.3 billion of the Section 8 reserves.

The Senate bill recommends \$9.54 billion for Section 8 contract renewals in FY1999. The Senate Committee has stated that it believes this amount sufficient to renew all Section 8 contracts up for renewal in FY1999.

The House bill provides \$9.6 billion for Section 8 contract renewals in FY1999.

## **Section 8 Amendments**

Originally, Section 8 contracts were made for new construction and substantial rehabilitation and were written for 40-year terms. As a result, it was very difficult to provide budget authority to adequately fund these contracts over time, and many of them need further funding to continue in operation as affordable housing. Section 8 amendments to these contracts provide the housing owner with additional funding needed to maintain the property.

The President has requested \$1.37 billion in budget authority for contract amendments in FY1999. An additional \$463 million of recaptured Section 8 funds would be added to the President's request, bringing the total for contract amendments to \$1.8 billion in FY1999.

The Senate bill does not agree with the President's request for \$1.37 billion for Section 8 amendments for FY1999.

The House recommends \$97 million for Section 8 contract amendments in FY1999.

## **Housing Tenant Protection**

The Administration realizes that not all owners of Section 8 assisted housing may be willing to renew their contracts. The Housing Certificate Fund will provide funding for those families that are affected if a contract renewal does not take place.

The President is requesting \$373 million for the housing tenants' protection in FY1999. This funding would be used to provide tenants who are displaced or whose rents will increase as a result of the restructuring of the Section 8 program. The Administration estimates that this amount would be sufficient to aid approximately 32,000 families who may find themselves in this situation.

The Senate and House bills recommend \$433.5 million for this program in FY1999.

## **Regional Opportunity Counseling**

The Administration is trying to reduce concentrations of poverty by increasing the opportunities of affordable housing for low-income families. In his budget request for HUD, the President is asking for \$20 million in new funding in the Housing Certificate Fund for the Regional Opportunity Counseling program (ROC).

ROC would award funds through a competitive process to public housing authorities and non-profit organizations in a 10 to 20 metropolitan targeted area. These authorities and organizations would counsel families in training in household budgets, aid them with landlord outreach, payments to landlords, and assist them with security and utility deposits, ultimately aiding them in moving to neighborhoods that offer higher quality housing, education and employment opportunities.

The Senate bill does not contain this proposal; The House bill provides \$10 million for regional counseling.

## **Section 8 Legislative Proposals**

The President's request contains several legislative proposals which the Administration believes would bring about a savings in the Section 8 outlays. These include: delaying the reissuance of vouchers for a 3-month period; eliminating the preference rules for Section 8 assistance; reverting any subsidy saved through paying a lower rent with voucher assistance back to HUD; setting minimum monthly rents at \$25; limiting one-person voucher or certificate holders to assistance for an efficiency apartment where possible; carefully verifying the income of tenants as they apply for housing to check for under-reporting; and, the assessment of Section 8 management for rent reasonableness.

The Senate bill agrees that the legislative proposals contained in the FY1998 appropriations should be continued in the FY1999 appropriations.

The House bill continues FY1998 legislative changes of minimum rents and 3-month delay in issuance of Section 8 certificates and vouchers, and provides a lower subsidy for one-person vouchers and efficiency apartments.

## **Public Housing**

HUD began a serious transformation of the public housing system in FY1993, and the FY1999 budget request continues this endeavor. HUD is pursuing this transformation through various administrative, regulatory, and legislative changes including advances in management reform, the demolition of the worst developments, helping troubled projects to become viable once again, promoting mixed-income projects, and aiding tenants in achieving self-sufficiency.

The FY1999 budget request proposes assistance for the public housing operating fund, the public housing capital fund, the revitalization of severely distressed public housing (HOPE VI), and drug elimination grants.

### **Public Housing Operating Fund**

The President requested \$2.818 billion for the public housing operating fund for FY1999. This amount supplemented by a \$113 million anticipated carryover would provide \$2.931 billion for the fund in FY1999, a \$31.6 million increase over the FY1998 level.

Both the Senate and House bills recommend \$2.818 billion for the public housing operating fund in FY1999.

Operating subsidies are needed by even the best managed housing authorities. The amounts of these subsidies are calculated through the Performance Funding System (PFS) of HUD for approximately 3,200 housing authorities nationwide. The PFS sets the level of the subsidy necessary for the housing authority to provide decent, safe and sanitary housing for lower-income households through the provision of maintenance, utilities and protective services needed within the development. In FY1999, HUD projects that housing authorities will receive enough funding to cover 60% of these operating expenses, and the remainder will be derived through rental receipts.<sup>3</sup>

### **Public Housing Capital Fund**

The President requested \$2.55 billion for the public housing capital fund in FY1999, an increase of \$50 million over the FY1998 level. The \$2.55 billion includes \$2.45 billion for the capital grants and \$100 million set-aside for technical assistance.

The Senate bill agrees with the President's request of \$2.55 billion.

The House bill, H.R. 4194, provides \$3.0 billion for the public housing capital fund with a \$100 million set-aside for technical assistance and a \$5 million set-aside for the Tenant Opportunity Program (TOP), rather than funding TOP in the Community Development Block Grant (CDBG) program as done in the past.

The public housing capital fund consolidates public housing development, public housing modernization, the major reconstruction of obsolete projects, public housing amendments, and lease adjustments. Funding can be used to build replacement units, upgrade the present housing stock, demolish obsolete units, and provide assistance to displaced families.

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<sup>3</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates*, Part 1. February, 1998. p. S-1.

The funding set-aside for technical assistance would be used for contract expertise, training, assistance to troubled authorities, and independent physical inspections.

## **Revitalization of Severely Distressed Public Housing (HOPE VI)**

The President is requesting \$550 million for the revitalization of severely distressed public housing in FY1999, the same amount as funded in FY1998. The requested amount includes \$457 million for grants to demolish 15,000 uninhabited units and to replace them with 4,000 hard replacement (constructed) units and \$93 million for the rental assistance of 10,000 tenant-based rental units. Public housing families who are to be assisted with these rental housing certificates are usually large families with children, and require two to four bedroom units. They also usually receive some form of relocation counseling and assistance in finding suitable housing as soon as possible.

The HOPE VI program is a principal effort by HUD to change the image of public housing from one of poorly-managed high rise buildings and squalor, to one of good design, sound management, and incentives for tenant self-sufficiency.

“HOPE VI grants are targeted towards public housing projects that require demolition, replacement, major redesign or reconstruction to correct major deficiencies, including high population density, deferred maintenance, physical deterioration, or obsolescence. In addition, they are directed towards projects predominantly occupied by families with children who are at risk (due to unemployment, teenage pregnancy, single-parent households, long-term dependency on public assistance and minimal education) in areas with substantial crime activity and high vacancy rates.”<sup>4</sup>

HUD has approved the demolition of 62,175 obsolete or severely distressed units from 1993 to 1997.

The Senate and House bills recommend \$600 million for HOPE VI in FY1999, a \$50 million increase over the President's request.

## **Drug Elimination Grants**

The President has requested \$310 million for drug elimination grants in FY1999, the same level as appropriated for FY1998. This request includes \$243.8 million for public and Indian housing authority grants for anti-drug and anti-crime efforts; \$16.2 million for federally-assisted low-income housing grants (for Section 8, Section 236, etc. projects); \$20 million for Operation Safe Home; \$20 million for the New Approach Anti-Drug program; and \$10 million for technical assistance.

The Senate bill agrees with \$310 million for drug elimination grants in FY1999 with the following set asides: \$10 million for technical assistance, \$20 million for Operation Safe Home, and \$20 million for the New Approach Anti-Drug program.

The House bill provides \$290 million for drug elimination grants with \$20 million set-aside for Operation Safe Home and \$10 million for technical assistance.

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<sup>4</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates.*, p.U-2.

Drug elimination grants are used to combat the concentration of crime in and around public housing and low-income housing developments. This is usually done through increased police coverage and heightened security measures, as well as training residents for volunteer resident patrols. Many developments have also used drug elimination grants to educate the youth in public housing developments on drug prevention and how to deter gang activity.

## **Community Development and Empowerment**

The President's budget request is seeking an increase in funding to continue efforts at community development and empowerment of communities. HUD has stated that its goal is "not to tell cities what to do, but to help communities do what they want to do".<sup>5</sup> Funding is provided for the Community Development Block Grant Program (CDBG) and other initiatives, to encourage cities and counties to work together.

"CDBG funds are allocated to 900 communities, all states and urban counties based on estimates of need and poverty rates. CDBG activities must meet one of three broad national objectives: benefit low-income persons; aid in the prevention or elimination of blight and slums; or, meet other particularly urgent community development needs. At least 70 percent of all CDBG funds must be used for activities that benefit persons of low-and moderate-income."<sup>6</sup>

The President is requesting \$4.725 billion for the CDBG program in FY1999, a \$50 million increase over the enacted FY1998 level. The Senate bill recommends \$4.75 billion for the CDBG program in FY1999, \$50 million more than requested by the President. The House bill recommends \$4.725 billion for CDBG in FY1999.

Although the CDBG program may be the largest one in the HUD budget aimed at aiding communities in meeting their development goals, it is not the only one. There are also provisions for Empowerment Zones, Brownfields, and Regional Connections Initiative. For further information on CDBGs and other community development programs, please see CRS Report 96-503, *Community Development Block Grants: An Overview*, by Eugene Boyd.

## **Housing Needs of Special Persons**

Included in this section are the President's requests for funding for five housing programs: Lead-based Paint Reduction, Youthbuild, Housing Opportunities for Persons with AIDS (HOPWA), HUD Administered Homeless Assistance, and Housing for Special Populations (the elderly and disabled).

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<sup>5</sup> U.S. Department of Housing and Urban Development Fiscal Year 1999 Budget Summary: *Closing the Opportunity Gap.*, p. 2.

<sup>6</sup> U.S. Department of Housing and Urban Development Fiscal Year 1999 Budget Summary: *Closing the Opportunity Gap.*, p. 10.

## **Lead-based Paint Reduction**

The President is requesting \$85 million for the Lead-based Paint Reduction program in FY1999, \$25 million more than the enacted FY1998 level. In the FY1998 budget the program was funded as a set-aside in the CDBG program.

The \$85 million for the program in FY1999 is to be divided in the following way: \$50 million for grants to state and local governments to perform lead abatement activities, particularly in housing occupied by young low-income children, \$10 million for technical assistance and technical studies, and \$25 million for a new "Healthy Homes Initiative" which will address housing-related childhood diseases and injuries.

The Senate bill recommends funding the Lead-based Paint Reduction program as a \$60 million set-aside under the CDBG program, not as a separate program in FY1999. The program was a set-aside in CDBG in the FY1998 appropriations.

The House bill provides \$80 million: \$60 million for lead hazard reduction grants and \$20 million for the President's "Healthy Homes" initiatives program. These are funded as a separate program, not as a CDBG set-aside.

## **Youthbuild**

The Youthbuild program was funded as a \$35 million set-aside of the CDBG program in FY1998. This year, the President is requesting that Youthbuild be funded as an independent program with \$45 million. Youthbuild provides on-site construction training and off-site academic and job skill development for youth between the ages of 16 and 24 who are high school drop-outs, and who are impoverished, from broken homes or on welfare.

HUD estimates that \$45 million would be sufficient to train between 5,000 and 6,000 youth in FY1999. The Senate bill recommends retaining Youthbuild as a \$40 million set-aside under the CDBG program in FY1999. The House bill would retain Youthbuild as a \$35 million set-aside under the CDBG program.

## **Housing Opportunities for Persons with AIDS (HOPWA)**

This program provides help to states and localities to meet the housing needs of individuals with HIV/AIDS and their families. As required by authorizing legislation, 90 percent of appropriated funds are to be distributed by formula to qualifying states and metropolitan areas on the basis of the number of reported incidences of AIDS. The remaining 10 percent is distributed through national competition for funds.<sup>7</sup>

Support is provided in the form of grants to states, local governments, and nonprofit organizations. Eligible activities include: short-term supported housing and services; community residences and services; single room occupancy dwellings; rental assistance; program development, and administrative costs.

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<sup>7</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates*, p. L-2.

The President has requested that the HOPWA program be funded with an appropriation of \$225 million for FY1999. This would be an increase of 10 percent over the FY1998 appropriation of \$205 million.

S. 2168 would also provide \$225 million for HOPWA in FY1999. The Senate Committee requests HUD to submit a report on the HOPWA program, including a review of all the component costs. The House bill, H.R. 4194, originally provided the same amount as the Senate bill for HOPWA, but when the bill was brought up on the floor, an amendment was made and adopted to fund it at \$204 million and to transfer the remaining \$21 million to VA for veteran medical care.

## **HUD-Administered Homeless Assistance**

The President's budget request for homeless assistance includes funding for both grants and Section 8 vouchers. The President proposes \$958 million for Homeless Assistance Grants in FY1999, an increase of 15 percent over the FY1998 appropriation of \$823 million. These funds would be distributed through HUD's "Continuum of Care" strategy. This strategy consolidates HUD's six McKinney Act homeless assistance programs into a community-based approach providing housing and services for the homeless. An additional \$192 million is requested for 34,000 new Section 8 vouchers targeted to homeless families or individuals who are ready to make the transition from temporary to permanent housing after counseling. One percent of the voucher funding would be available for technical assistance.

The Senate bill recommends \$1 billion for homeless assistance grants, and does not provide Section 8 vouchers for the homeless. The Committee recommends that 30 percent of the funding for homeless assistance grants be used for permanent housing for the homeless. The Committee also requests a HUD study on the costs of HUD homeless programs, and an analysis on the "continuum of care" strategy.

The House bill recommends \$975 million for homeless assistance grants and does not provide Section 8 vouchers for the homeless. The House Committee recommends allowing HUD to use up to 1% of appropriated funds for technical assistance and systems support. In addition, the Committee encourages HUD to conduct various studies to determine the efficiency and effectiveness of the program.

## **Housing for Special Populations**

This program consolidates activity under Section 202 Housing for the Elderly and Section 811 Housing for the Disabled. Through this program HUD provides eligible nonprofit organizations with grants to finance the acquisition, rehabilitation, or construction of housing for the elderly and disabled persons.

The President's budget proposal for FY1999 would operate the housing for special needs program as a component of the HOME Investments Partnership Programs. This is part of an overall plan to consolidate HUD's program structure. However, such a proposal would require authorizing legislation to become reality.



The FY1999 request for housing assistance for the elderly includes funding for grants and Section 8 vouchers. The budget requests \$109 million for grant funding and \$50 million for elderly vouchers. The Administration expects voucher funding to be more efficient, and therefore expand the number of elderly households to be served. It is expected that the FY1999 combination of grant funding and vouchers would increase the number of assisted units for the elderly from approximately 8,500 in 1998 to approximately 10,300 in 1999. The FY1998 appropriation for the elderly grant program was \$645 million.

The FY1999 budget request for the disabled is \$174 million of which 25 percent is to be used for Section 8 vouchers. The FY1998 appropriation for housing the disabled was \$194 million. The HUD appropriation for FY1998 also permitted 25 percent of the total Section 811 funding for voucher use.

Finally, the budget proposal for FY1999 requests a set-aside for supportive services within the Community Block Grant account. The President has asked that \$7 million be set aside for grants to service coordinators and congregate services for the elderly and disabled.

The Senate bill rejects the proposal to merge Section 202 and Section 811 into the HOME program. S. 2168 provides separate funding for both: \$676 million for Section 202, and \$194 million for Section 811. The Senate's FY1999 recommendation for the elderly grant program is an increase of \$31 million over the FY1998 appropriation. The recommendation for the program for the disabled is the same level as the FY1998 appropriation. The Senate also recommends that up to 25 percent of the appropriated funding for Section 811 housing for the disabled be permitted to provide housing vouchers for the disabled.

The House bill recommends the same level of funding as in the FY1998 appropriations: \$645 million for the Section 202 program and \$194 million for Section 811 housing for the disabled. The House Committee agrees with the Senate to permit usage of 25% of appropriated Section 811 funds for vouchers for the disabled. The Committee also agrees that Section 202 and Section 811 should not be merged with the HOME program.

## **Growth in Homeownership**

In 1995, President Clinton pledged to reach a homeownership rate of 67.5 percent by the year 2000. The Administration believes that "nothing manifests the American dream more than owning a home."<sup>8</sup> The President's budget request for FY1999 contains a number of initiatives geared to aiding American households in becoming homeowners.

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<sup>8</sup> U.S. Department of Housing and Urban Development Fiscal Year 1999 Budget Summary: *Closing the Opportunity Gap*, p. 14.

## **Increasing FHA Loan Limits**

The President's budget request is seeking to raise the home mortgage insurance limits of the Federal Housing Administration (FHA). The Administration believes that more middle-income families would be able to purchase homes if the insurance limits were raised for FHA single-family mortgages.

Under present law, loan limits for FHA-insured loans are determined on an area-by-area basis. In general, FHA-insured loans for one-family homes are limited to the lesser of 95 percent of the median home price for an area, or 75 percent of the conforming loan limit for the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). But the loan limit for an area may not be less than 38 percent of the Freddie Mac/Fannie Mae limit. Alaska, Guam, Hawaii, and the Virgin Islands are designated as special high cost areas in which FHA may set loan limits up to 50 percent higher than the general loan limits. Given the present Freddie Mac/Fannie Mae limit of \$227,150 for one-family properties, the general FHA limit may range between \$86,317 and \$170,362. If 95 percent of the median home price for an area is less than \$170,362 but greater than \$86,317, then 95 percent of the median becomes the FHA loan limit for the area. If 95 percent of the median home price for an area is less than \$86,317, then \$86,317 becomes the FHA loan limit. If 95 percent of the median home price is greater than \$170,362, then \$170,362 becomes the FHA loan limit for the area.

The Administration proposes to amend the law such that the FHA loan limit would be the same as Freddie Mac/Fannie Mae limit. So, the proposal has two components: (1) remove the language that limits the loans to 95 percent of the area's median home price and (2) raise the limit to 100 percent of the Freddie Mac/Fannie Mae limit. Instead of having hundreds of loan limits that vary among communities, the Administration would like FHA to set a nationwide limit of \$227,150 for FY1999. It estimates that this increased loan limit would also produce over \$200 million annually in increased insurance revenues.

The Senate bill and House bill recommends that the law be amended such that FHA loans on one-family homes would be limited to the lesser of 95 percent of the median home price for an area, or 87 percent of the Freddie Mac/Fannie Mae limit but the limit would not be less than 48 percent of the Freddie Mac/Fannie Mae limit. Under this proposal the FHA loans limits during 1998 would range between \$109,000 and \$197,000 compared to \$86,317 to \$170,361 under present law.

For further information on FHA mortgage limits, please see CRS Report 98-421, *Raising the FHA Mortgage Limit: Issues and Options*, by Bruce E. Foote

## **The HOME Investment Partnership Program**

The HOME program makes funds available to participating jurisdictions to increase the supply and affordability of housing and homeownership for low-income

families. States and localities have the option of using HOME funds for a variety of housing activities.<sup>9</sup>

The President's budget requests \$1.88 billion for the HOME program in FY1999 to be used as follows: \$1.55 billion for HOME grants, \$25 million for housing counseling, and \$333 million for housing the elderly and disabled. HUD estimates that this amount of funding would be sufficient to produce approximately 78,000 units of newly constructed, rehabilitated or acquired affordable housing for owners and renters, and would also provide enough funding for 11,200 families to receive tenant-based assistance.

The Senate bill recommends \$1.55 billion for HOME grants in FY1999. It does not agree with the President's request to combine housing for the elderly and disabled with the HOME program, and does not agree with providing vouchers for the elderly.

The House bill provides \$1.6 billion for HOME grants and does not agree with the President's recommendation to combine housing for the elderly and disabled in the HOME program.

### **The HOME Loan Guarantee Program**

The President's budget request includes funding for a new HOME Loan Guarantee program, which would set up a HOME bank. Through this bank, participating jurisdictions would be able to request and receive a federal loan guarantee for up to five times their most recent allocation under the HOME program. HUD believes that this "financing would enable the participating jurisdictions to formulate and implement neighborhood strategies to build or rehabilitate large numbers of units as a single undertaking within a relatively short period of time."<sup>10</sup>

The President's budget request asks for a \$100 million commitment level for the HOME Loan Guarantee program at an estimated cost of \$11 million in FY1999. Neither the Senate nor the House bill contains this provision. This new HOME Loan Guarantee program requires authorizing legislation to become a reality. For more information on either of the HOME programs, please see CRS Report 97-352, *The HOME Program in the 105th Congress*, by Eugene Boyd.

### **Homeownership Zones**

The Homeownership Zone program helps inner-city redevelopment by funding large-scale revitalization efforts that create neighborhoods of single-family homes. The majority of the housing units are reserved under the program for low- and moderate-income families, but some middle-income families also participate in the program to promote more stable communities. Although increasing the supply of

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<sup>9</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates.*, p. G-1.

<sup>10</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates.*, p. G-2.

affordable owner-occupied housing is the top priority of the program, it also supports jobs in the construction industry, and the economic development of businesses needed in a neighborhood, such as grocery store, cleaners, restaurants, etc. "HUD wants to play a significant role in rebuilding these once vibrant neighborhoods by making owning a home reality for thousands of hardworking families and using homeownership as the groundwork for economic revitalization."<sup>11</sup>

There was no funding provided for Homeownership Zones in the FY1998 budget. In FY1996 and FY1997, it was funded as a set-aside and through recaptured funds of other programs. In his budget request for FY1999, the President has asked that it be funded as a separate program with a \$25 million appropriation.

There is no funding for the program in either the House or Senate bill for FY1999.

## **Other Provisions**

### **Native American Block Grants**

Under the Native American Block Grant, eligible Indian tribes or their Tribally Designated Housing Entities receive funds which can be used for a variety of activities that would increase their supply of affordable housing. These include new construction, rehabilitation, operating assistance, supportive and counseling services and efforts at crime prevention.

In his budget request for FY1999, the President is asking for \$600 million for the Native American Housing Block Grant, the same level as funded in FY1998. He is also asking for a new \$6 million for a Native American Housing Loan Guarantee program patterned after the Community Development Block Grant Section 108 program.

The Senate bill recommends that the program be funded at the requested level, but the Committee notes its concern about the Administration's implementation of this new block grant program and the potential risk of problems.

The House bill, H.R. 4194, provides \$620 million for Native American Block Grants, with \$6 million set aside for Section 601 loan guarantees and \$6 million set aside for inspections, travel, and technical assistance.

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<sup>11</sup> U.S. Department of Housing and Urban Development: *Congressional Justifications for 1999 Estimates.*, P. H-1.

## **Fair Housing**

In an effort to end discrimination in housing, the president's budget is requesting an increase in funding for Fair Housing Initiatives and the Fair Housing Assistance Program. For Fair Housing Initiatives, the President is requesting \$29 million, a \$14 million increase over FY1998 funding. For the Fair Housing Assistance program, he is requesting \$23 million, an \$8 million increase over last year's appropriated level. The total requested for fair housing is \$52 million, a \$22 million increase over the FY1998 level.

The Senate bill provides \$20 million for the Fair Housing Assistance program, and \$15 million for the Fair Housing Initiatives program. The \$35 million total is \$5 million more than the FY1998 level.

The House bill provides a total of \$40 million for Fair Housing: \$16.5 million for the Fair Housing Assistance Program, and \$23.5 million for the Fair Housing Initiatives Program.

## **Office of Rural Housing and Economic Development**

As reported, S. 2168 would establish an Office of Rural Housing and Economic Development to support housing and economic development in rural areas. During FY1999, the office would be funded at \$35 million. State housing finance agencies would be awarded \$20 to support innovative community development initiatives in rural communities. The Senate committee intends that \$10 million be used to establish a clearinghouse of ideas for innovative strategies for rural housing and economic development and revitalization, and that, of this amount, \$8 million would be provided directly to rural nonprofit and community development corporations to support capacity building and technical assistance. The Committee directs that \$5 million be used to provide seed support for rural nonprofit and community development corporations. The Committee notes that this new office is not intended to duplicate the activities performed by any agency or office of the Department of Agriculture.

H.R. 4194, the House bill, contains no provision for an Office of rural housing and economic development.

## **Program Reforms**

HUD has indicated that it will be submitting legislation that repeals or consolidates a number of programs. Some of these programs were demonstration programs, while others are being consolidated in order to better accommodate the reduction in the workforce at HUD.

HUD also proposes to reform the FHA single-family property disposition program to provide the department with a cost-effective way of paying insurance claims and disposing of HUD-owned mortgages. HUD expects this proposal to save more than \$525 million in budget authority.

Under current law, a simplified method is used to calculate downpayments for FHA-insured home loans made in Hawaii and Alaska. The provision expires in September 30, 1998. The Senate bill would extend the provision for two years and apply it nationwide. The House bill does not contain this provision.