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Report RL32443

*The Department of Housing and Urban Development:  
FY2005 Budget*

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December 28, 2004

**Abstract.** The Administration presented its proposed budget for FY2005 to Congress on February 2, 2004, requesting \$31.5 billion for the Department of Housing and Urban Development (HUD), an increase of about \$300 million above the \$31.2 billion enacted for FY2004. On September 9, 2004, the House Appropriations Committee reported H.R. 5041 (H.Rept. 108-674) recommending \$32.6 billion for HUD, \$1.4 billion more than last years funding, and nearly \$1.1 billion above the Administrations request. The Senate Appropriations Committee passed S. 2825 (S.Rept. 108-353) on September 21, 2004, calling for \$32.2 billion, slightly more than \$1 billion above the FY2004 level and \$700 million above the budget request.

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## The Department of Housing and Urban Development (HUD): FY2005 Budget

**Updated December 28, 2004**

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# The Department of Housing and Urban Development (HUD): FY2005 Budget

## Summary

The Administration presented its proposed budget for FY2005 to Congress on February 2, 2004, requesting \$31.5 billion for the Department of Housing and Urban Development (HUD), an increase of about 1% above the \$31.2 billion enacted for FY2004. On November 20, 2004, the House and Senate passed the Consolidated Appropriations Act, 2005 (H.Rept. 108-792, H.R. 4818) that provided HUD with \$32.0 billion, \$838 million or 2.7% above the FY2004 enacted level. The President signed the omnibus bill on December 8, 2004, as P.L. 108-447. (Figures in this report do not include an across-the-board cut of 0.80% that will reduce HUD appropriations by approximately \$256 million. With this reduction, the increase from FY2004 to FY2005 would be about \$582 million, or 1.9%.)

HUD's largest program, the Housing Certificate Fund, contains the Section 8 rental voucher program. Central to the Administration's proposed FY2005 budget was a controversial initiative, the Flexible Voucher Program (FVP), that would have significantly revised the Section 8 voucher program. Public Housing Authorities (PHAs) would no longer be reimbursed based on their number and cost of in-use vouchers, but would be given a lump sum of money (a "block grant") to assist any households with incomes up to 80% of the local area median. Low-income housing advocates contended that this change and the level of proposed funding could require PHAs either to reduce the number of families assisted, increase the average rent that voucher holders pay, or shift assistance away from the poorest of the poor. HUD countered that the FVP proposal would provide an incentive for PHAs to control the rapidly rising costs of housing vouchers and PHAs that are good managers would be rewarded with performance-based incentives. The Administration requested almost \$1 billion less for the FVP than provided in the previous year for vouchers.

Congress did not adopt the FVP but continued with dollar-based funding, a practice first adopted in FY2004 that provides some constraint on spending. However, the final funding law provided \$1.6 billion more for Section 8 than the requested level. To pay for this significant increase, all other HUD programs were reduced below their FY2004 appropriation levels: for example, Community Development Block Grants, down \$225 million; HOME, down \$91 million; housing for the elderly, down \$27 million; homeless assistance grants, down \$9 million; and housing opportunities for persons with AIDS, down \$11 million. While the Administration proposed no funding for the HOPE VI public housing rehabilitation program, P.L. 108-447 appropriated \$144 million, \$5 million less than for FY2004.

The conferees provided \$50 million for the Administration's Downpayment Assistance Initiative, a set-aside within the HOME program, which helps lower-income families buy a first home, considerably less than the \$200 million request. Congress did not provide funding for the Administration's Zero Downpayment Homeownership Initiative (H.R. 3755).

This report will not be further updated.

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# The Department of Housing and Urban Development (HUD): FY2005 Budget

## Most Recent Developments

***President Signs Omnibus Bill.*** On December 8, 2004, the President signed the Consolidated Appropriations Act, 2005 (P.L. 108-447). The law provides for an across-the-board reduction of 0.80% for most discretionary programs.

***Conference Report Approved.*** The Consolidated Appropriations Act, 2005 (H.Rept. 108-792, H.R. 4818) was passed by the House and Senate on November 20, 2004. The Department of Housing and Urban Development would receive \$32.0 billion, \$838 million more than FY2004 appropriations.

***Senate Appropriations Committee Approves S. 2825.*** On September 21, 2004, the Senate Appropriations Committee approved S. 2825 (S.Rept. 108-353) calling for \$32.2 billion for HUD, slightly more than \$1 billion above the FY2004 enacted level and almost \$700 million above the budget request.

***House Appropriations Committee Approves H.R. 5041.*** On September 9, 2004, the House Appropriations Committee reported H.R. 5041 (H.Rept. 108-674), recommending nearly \$32.6 billion for HUD, close to \$1.4 billion above the FY2004 enacted level and about \$1.1 billion more than the budget request. The Committee had approved the bill by voice vote on July 22, 2004.

***President's Budget Submitted.*** The President submitted his budget to the Congress on February 2, 2004, requesting \$31.5 billion for HUD, an increase of \$317 million compared to the \$31.2 billion enacted for FY2004.

## Introduction to the Department of Housing and Urban Development (HUD)

Most of the appropriations for the Department of Housing and Urban Development (HUD) are designed to address housing problems faced by households with very low incomes (for example, the typical recipient of a housing voucher has an income of about \$12,000) or other special housing needs. These include programs of rental assistance for the poor, elderly, or disabled; housing assistance for persons with AIDS; and shelter for those who are homeless. 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. In recent years, HUD has focused more attention on efforts to increase the homeownership rates for lower-income and minority households. (At the end of

the third quarter of 2004, the national homeownership rate stood at 69.0%, while the rates for white, black, and Hispanic households stood at 76.1%, 48.4%, and 48.7%, respectively.) HUD's Federal Housing Administration (FHA) insures mortgages made by lenders to lower-income homebuyers and those with less than sterling credit records, and to developers of multifamily rental buildings containing relatively affordable units.

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

**Table 1. Department of Housing and Urban Development Appropriations, FY2001 to FY2005**  
(net budget authority in billions)

FY2001	FY2002	FY2003	FY2004	FY2005
\$28.92	\$30.15	\$31.01	\$31.20	\$32.04

**Source:** Figures are from the House Appropriations Committee estimate tables. Final spending levels for any fiscal year include all supplemental appropriations or rescissions. Final totals remain uncertain until all program experience has been recorded, a process that may not be completed for several months after the end of the fiscal year. The FY2005 figure is from the House Appropriations Committee's funding table in H.Rept. 108-792, in the Congressional Record of Nov. 20, 2004 beginning at page H10178 and does not include the effects of the 0.80% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-447.

**FY2004 Appropriations**

The Consolidated Appropriations Act (P.L. 108-199) that was signed into law by the President on January 23, 2004 provided HUD with \$31.2 billion, an increase of \$192 million or 0.6% above FY2003 funding. The Housing Certificate Fund received nearly \$19.3 billion, a substantial increase over FY2003 appropriations of

\$17.3 billion. The HOPE VI program was funded at \$149 million, a sharp reduction from \$570 million in FY2003. For more information, see CRS Report RL31804, *Appropriations for FY2004: VA, HUD, and Independent Agencies*.

## FY2005 Budget Issues In Brief

**Budget Level.** The Administration proposed a HUD budget for FY2005 of \$31.5 billion, an increase of about \$317 million or about 1% above the FY2004 enacted budget of \$31.2 billion. This follows an increase of about \$192 million or 0.6% from FY2003 to FY2004. Affordable housing advocates who argue for larger increases in the HUD budget point to the 2004 report, *The State of the Nation's Housing*, by Harvard University's Joint Center For Housing Studies, which found that "Although the overwhelming majority of Americans are well housed, nearly a third of all households spend 30% or more of their income on housing and 13% spend 50% or more. In addition to widespread affordability problems, crowding is on the increase, some 2.5-3.5 million people are homeless at some point in a given year, and nearly 2 million households still live in severely inadequate units." HUD Deputy Secretary Roy Bernardi acknowledged in a recent interview that "there is not enough money right now in the country to provide housing for all the people who need it," but he cited current budget constraints caused by the demands of homeland security, combating terrorism, and national defense.<sup>1</sup>

**Section 8 Vouchers.** HUD's FY2005 budget proposed to eliminate the Section 8 voucher program and replace it with a new grant program called the Flexible Voucher Program (FVP). The funding requested for this new program was about \$1 billion less than the voucher program received last year and it was estimated to be more than \$1 billion less than what would be needed to maintain the voucher program at its current level if the FVP proposal was not adopted.<sup>2</sup> According to HUD, the FVP proposal would provide an incentive for Public Housing Authorities (PHAs) to control the rapidly rising costs of housing vouchers. Under FVP, PHAs would receive a fixed budget and would be subject to fewer regulations compared to the current program under which PHAs are reimbursed based on their estimated costs and are subject to a number of federal rules and regulations. Low-income housing advocates contend that this change could require PHAs to either reduce the number of families assisted, increase the average rent that voucher holders pay, or shift assistance away from the poorest of the poor. A similar initiative was rejected by Congress in FY2004. Neither H.R. 5041, S. 2825, nor the final Consolidated Appropriations Act (P.L.108-447) adopts the FVP proposal and all three increase funding for the Section 8 program above the FY2004 level.

**HOPE VI.** No funding was proposed for HOPE VI, a public housing rehabilitation program that received \$150 million in FY2004. The Administration points to more than \$2 billion of unspent funds in the pipeline that will keep the program going for years. Advocates for the program, including many Members of

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<sup>1</sup> Interview with Roy Bernardi, *The Post-Standard* (Syracuse, N.Y.), June 20, 2004.

<sup>2</sup> See Barbara Sard and Will Fischer, *Administration Seeks Deep Cuts in Housing Vouchers and Conversion of Program to a Block Grant*, Center on Budget and Policy Priorities, May 24, 2004.



Congress, contend that the program has been successful in replacing some of the most dilapidated housing projects with new mixed-income housing, and that it needs to be continued. The House recommended \$143 million, the Senate recommended \$150 million, and the final Consolidated Appropriations Act (P.L. 108-447) provides \$144 million for HOPE VI in FY2005.

**Homeownership Initiatives.** The Administration's Downpayment Assistance Initiative program provides grants to participating jurisdictions to provide help to lower-income families to purchase a home. The program received an \$87-million set-aside within the HOME program for FY2004, and the Administration's FY2005 budget requested \$200 million. The conferees agreed to \$50 million for FY2005, with the funds to remain available until September 30, 2007. The House Appropriations Committee had recommended \$85 million, while the Senate Committee recommended \$50 million. (The Senate Committee report, S. Rept. 108-353, noted a Government Accountability Office (GAO) review that found a very slow 10% spend-out rate for this program during FY2003 and 2004.)

A second Administration homeownership initiative, the Zero Downpayment program (H.R. 3755) was proposed to help an estimated 150,000 first-time homebuyers annually purchase with no money down and finance all settlement costs. On June 3, 2004, the House Financial Services Committee passed an amended H.R. 3755. The Administration says that homeownership for lower-income and minority families helps create a stable living environment for children and allows these families to accumulate wealth. Critics contend that the Administration's focus on homeownership is unbalanced and political; that too many lower-income families are being enticed to purchase a home with little or no savings or financial knowledge about budgets or home repair contracts, and that they are especially vulnerable to layoffs and a variety of financial, and mortgage- and housing-related scams. They point to very high FHA mortgage delinquency rates — currently above 12%. While the Administration's FY2005 budget projected no cost for the Zero Downpayment program, assuming higher insurance premiums would cover costs, on June 21, 2004, the Congressional Budget Office (CBO) issued a cost estimate of \$562 million over the 2006-2009 period. CBO estimates that defaults for the new program would average about 1% each year and that the cumulative default rate over a 30-year period would exceed 30%. Neither the House nor Senate Appropriations Committees, nor the conferees included funding for the Zero Downpayment proposal for FY2005.

**The Samaritan and Faith-Based Prisoner Reentry Initiatives.** The Administration's FY2005 budget included \$50 million for the Samaritan Initiative to address the President's goal of ending chronic homelessness. The goal of the new program would be to provide new housing options and aggressive outreach and services to homeless people. The \$25 million Faith-Based Prisoner Reentry program was also proposed in the President's budget and would be an effort with the Labor and Justice Departments to help 600,000 people who leave prison each year make the transition to society. These initiatives were not funded for FY2005 in either the House, Senate, or final bill.

**Table 2** presents a summary of FY2004 appropriations for HUD, the FY2005 request, Appropriations Committees' responses, and final bill passage. The balance of this report provides additional details on each component of the HUD budget. For

a broader discussion of housing-related issues, see CRS Report RL32062, *Housing Issues in the 108<sup>th</sup> Congress*.

**Table 2. Appropriations: Housing and Urban Development,  
FY2004 to FY2005**

(budget authority in billions)

Program	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
Housing Certificate Fund (Section 8) includes advance appropriations	\$19.257	\$18.466	\$20.018 <sup>a</sup>	\$20.708	\$20.226 <sup>a</sup>
— Tenant-based vouchers	—	—	14.677	—	14.885
— Project-based rental assistance	—	—	5.341	—	5.341
Public housing capital fund	2.696	2.674	2.580	2.700	2.600
Public housing operating fund	3.579	3.573	3.425	2.610	2.458
HOPE VI	0.149	0.000	0.143	0.150	0.144
Native American housing block grants	0.650	0.647	0.622	0.650	0.627
Native Hawaiian Block Grant	0.000	0.010	0.000	0.000	0.000
Housing, persons with AIDS (HOPWA)	0.295	0.295	0.282	0.295	0.284
Rural Housing Economic Development	0.025	0.000	0.024	0.025	0.024
Empowerment zones; enterprise communities	0.015	0.000	0.014	0.000	0.010
Community Development Block Grant (including supplemental)	4.934	4.618	4.711	4.950	4.709
Brownfields redevelopment	0.025	0.000	0.024	0.025	0.024
HOME Investment Partnerships	2.006	2.084	1.920	2.050	1.915
Homeless Assistance Grants	1.260	1.282	1.206	1.260	1.251
Samaritan Initiative	0.000	0.050	0.000	0.000	0.000
Housing for the elderly	0.774	0.773	0.741	0.774	0.747
Housing for the disabled	0.249	0.249	0.238	0.250	0.240
Housing Counseling Assistance	0.000	0.045	0.000	0.000	0.000
Research and technology	0.047	0.047	0.045	0.047	0.046
Fair housing activities	0.048	0.048	0.046	0.048	0.047
Office, lead hazard control	0.174	0.139	0.167	0.175	0.168
Salaries and expenses	0.544	0.592	0.544	0.591	0.547

<b>Program</b>	<b>FY2004 enacted</b>	<b>FY2005 request</b>	<b>FY2005 House</b>	<b>FY2005 Senate</b>	<b>FY2005 Conf.</b>
Working capital fund	0.234	0.234	0.100	0.234	0.270
Inspector General	0.077	0.077	0.077	0.084	0.080
Loan Guarantees	0.014	0.002	0.013	0.009	0.013
<b>Subtotal: Appropriations</b>	<b>37.049</b>	<b>35.904</b>	<b>36.940</b>	<b>37.633</b>	<b>36.429</b>
Section 8 recaptures (rescission)	-2.844	-1.557	-1.557	-2.588	-1.557
Rental housing assistance (rescission)	-0.303	-0.675	-0.675	-0.675	-0.675
Other rescissions	-0.030	-0.089	-0.089	-0.089	-0.089
<b>Subtotal: Rescissions</b>	<b>-3.177</b>	<b>-2.321</b>	<b>-2.321</b>	<b>-3.352</b>	<b>-2.321</b>
Federal Housing Administration (net)	-2.364	-1.707	-1.682	-1.707	-1.710
GNMA (net)	-0.305	-0.357	-0.357	-0.357	-0.357
<b>Subtotal: Offsets</b>	<b>-2.669</b>	<b>-2.064</b>	<b>-2.040</b>	<b>-2.064</b>	<b>-2.068</b>
<b>Total</b>	<b>\$31.202</b>	<b>\$31.519</b>	<b>\$32.579</b>	<b>\$32.218</b>	<b>\$32.040</b>

**Sources:** H.Rept. 108-674, H.R. 5041, S.Rept. 108-393, S. 2825, H.Rept. 108-792, P.L. 108-447. Figures in this table **do not** include the effects of the 0.80% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-447.

- a. The House Committee bill and the Consolidated Appropriations law split the Housing Certificate Fund into two separate accounts: tenant-based rental assistance (vouchers) and project-based rental assistance.

## Public and Indian Housing

**The Housing Certificate Fund.** The Housing Certificate Fund is the account that funds the Section 8 program. Section 8 is really two programs, project-based Section 8 and Section 8 tenant-based vouchers. Project-based Section 8 is privately owned, subsidized housing for low-income households; vouchers are portable subsidies that low-income families use to reduce their housing costs in the private market. The Section 8 program currently funds over 2 million vouchers and over 1 million project-based Section 8 units. Note that \$4.2 billion of the funds listed below are provided in the form of an advance appropriation for the following year, and each year \$4.2 billion is available from the previous year. This advance funding structure is used to provide funds to the Public Housing Authorities (PHAs) that administer the program in the months between the beginning of their fiscal years and the time the federal budget is enacted in final form, which, in recent years, has generally lagged the federal fiscal year and often lagged the calendar year.

**Table 3. Housing Certificate Fund, FY2004 to FY2005**  
(in millions)

	<b>FY2004 enacted</b>	<b>FY2005 request</b>	<b>FY2005 House</b>	<b>FY2005 Senate</b>	<b>FY2005 Conf.</b>
<b>Housing Certificate Fund</b>	<b>\$19,257</b>	<b>\$18,466</b>	<b>\$20,018</b>	<b>\$20,708</b>	<b>\$20,226</b>
<i>All Section 8 Renewals<sup>a</sup></i>	<i>17,531</i>	<i>16,920</i>	<i>18,520</i>	<i>19,034</i>	<i>18,700</i>
<b>Section 8 Vouchers</b>	<b>14,186</b>	<b>13,115</b>	<b>14,677</b>	<b>b</b>	<b>14,885</b>
— Voucher Renewals	12,585	11,693	13,303	c	13,463
— Administrative Fees	1,210	1,156	1,162	1,256	1,210
— Central Reserve	136	100	0	100	0
— Family Self Sufficiency	48	0	46	48	46
— Tenant Protection	205	163	163	163	163
— Working Capital Fund	2	3	3	5 <sup>d</sup>	3
<b>Project-based Section 8</b>	<b>5,071</b>	<b>5,351</b>	<b>5,341</b>	<b>b</b>	<b>5,341</b>
— Project-based Renewals	4,946	5,227	5,217	c	5,237 <sup>f</sup>
— Contract Administrators	99	102	102	102	102
— Moderate rehabilitation administrative fees	25	20	20	e	g
— Working Capital Fund	1	2	2	d	2

**Source:** H.Rept. 108-674, H.R. 5041, S.Rept. 108-353, S. 2825.

- a. Does not include voucher renewals funded by the Central Reserve Fund.
- b. No breakdown is provided in the Senate Committee report of the specific amounts provided for either vouchers or project-based contracts.
- c. Both voucher and project-based renewals are included in the total amount shown for “all renewals” but no further breakdown is provided in Senate Committee documents.
- d. The Senate Committee shows only a consolidated amount for the Working Capital Fund, with no further breakdown between vouchers and project-based contracts.
- e. Included in administrative fees account.
- f. Includes renewal and administrative costs for moderate rehabilitation units and Section 441 units.
- g. Included in renewals.

**Advance Appropriations (included in above totals for indicated year):**

**FY2005:** \$4.2 billion (FY2004)

**FY2006:** \$4.2 billion (FY2005)

**Rescission of Unobligated Balances:**

**FY2004:** \$2.8 billion

**FY2005:** \$1.6 billion (request, H.R. 5041, P.L. 108-447); \$2.8 billion (S. 2825)

**Highlights:**

**Funding Level.** The President's FY2005 request for the Housing Certificate Fund represented a \$790 million cut from the FY2004 program level. The voucher program faced the largest cut, over \$1 billion from last year's level; the project-based Section 8 program would have received a modest increase in funding. The voucher program has experienced rapid cost increases over the past several years, due to, among other factors, increasing housing costs, increasing utilization rates, Congress's authorization of additional vouchers, and programmatic and policy changes designed to increase utilization and deconcentrate poverty. The FY2005 proposed budget cut coincides with the President's initiative to reform the voucher program by converting it into a new grant program, called the Flexible Voucher Program (described below).

The House Appropriations Committee would have funded the combined Section 8 program at almost \$700 million above last year's level and \$1.6 billion above the President's requested level. The report language specified that the amount provided in the bill for the voucher program would be the total funding available and that the Secretary would be prohibited from augmenting the program budget with funds from other sources. The Senate bill would have provided almost \$2 billion more than the President's requested level and given the Secretary the discretion to use recaptured funds to augment the program if necessary. The enacted funding bill (P.L. 108-447) provides over \$20 billion to the program, almost \$1.8 billion more than the President requested.

**Budget-Based Funding and Splitting the HCF.** The change from "unit-based" funding to "dollar-based" funding began in the FY2004 appropriations law and has caused some controversy among PHA groups and low-income housing advocates. Prior to FY2004, PHAs received a budget based on a fixed number of vouchers and they were funded based on the *actual* cost of those vouchers (unit-based funding). In FY2004, agencies received a budget based on a fixed number of vouchers and a *fixed* cost for those vouchers, as spelled out in the appropriations law (dollar-based, or budget-based, funding). Voucher costs were fixed for FY2004 at the August 1, 2003 level, plus an adjustment for inflation. For some agencies, whose costs had increased significantly over the previous year, this budget change provided them with less funding than they actually needed to maintain their programs at their previous levels. As a result, many agencies had to make cost-saving adjustments in their programs, such as not reissuing vouchers when families leave the program and/or cutting the rent paid to landlords.

The House bill directed the Secretary to continue the practice of dollar-based funding for PHAs in FY2005, but unlike FY2004, the bill did not spell out a formula for distributing the funds. The House Appropriations Committee bill also proposed to split the Housing Certificate Fund into two accounts: "Tenant-based Rental Assistance" and "Project-based Rental Assistance."

S. 2825 also proposed to continue the practice of budget-based funding in the voucher program. The bill directed the Secretary to fund PHAs based on a fixed cost, which would be established using PHAs' costs as reported on their most recent end of the year financial statements, adjusted for any additional information submitted by the PHAs as of October 1, 2004, plus an inflation factor. The Senate bill's

proposed inflation factor was more broadly defined than the one adopted in FY2004. The Senate bill did not propose to split the HCF into two accounts.

The final FY2005 Consolidated Appropriations Act (P.L. 108-447) also continues the procedure of budget-based funding of PHAs. In the bill, the Secretary of HUD is directed to fund PHAs based on their voucher costs and utilization rates as of May-July 2004 plus the HUD published annual adjustment factor (AAF). If an agency's May-July data is not available, HUD is directed to fund PHAs based on February-April 2004 data, or if that is not available, the agency's most recently submitted year-end financial statement, as of March 31, 2004. According to the conference report (H.Rept. 108-792), PHAs are expected to manage their voucher programs within their budgets for FY2005, regardless of their actual costs. The Act also states that "HUD shall provide agencies with flexibility to adjust payment standards and portability policies as necessary to manage within their 2005 budgets." HUD is directed to publish guidance implementing the new funding law within 30 days of its passage and notify PHAs of their budget levels within 45 days of passage. Like the House bill, P.L. 108-447 splits the HCF into two accounts. The conference report states that the reason for the split is to provide better transparency and oversight of expenditures within the accounts.

***Housing Certificate Fund Rescission.*** Each year, a portion of the cost of the Housing Certificate Fund is offset by a recapture of unobligated balances from previous years. For FY2004, the President's budget indicated that just under \$1.4 billion would be available in such balances for rescission. However, Congress rescinded double that amount in FY2004, over \$2.8 billion. The additional funds were estimated to be available as the result of savings from a one-time accounting change enacted in the program.

In FY2005, the President's budget indicated that over \$1.5 billion would be available for rescission from prior years' unobligated balances. The House Appropriations Committee bill would have rescinded that amount. S. 2825 proposed to rescind over \$2.5 billion and directed the Comptroller General to audit and certify all funds available for rescission within the account. The Senate bill further directed that if sufficient funds to meet the rescission are not available within the HCF account the difference must be met through a proportional rescission taken from each discretionary account funded in the VA, HUD and Independent Agencies appropriations bill, with the exception of the Medical Services account in VA. The Consolidated Appropriations Act (P.L. 108-447) rescinds the amount proposed by the Administration.

***The Flexible Voucher Program.*** The President's Flexible Voucher Program (FVP) would amend statute to convert the existing voucher program into a dollar-based formula grant. The PHAs that administer the current voucher program receive from HUD a fixed number of vouchers that they can distribute to low-income families. Under the FVP proposal, PHAs would instead receive a fixed number of dollars, which they could use to serve as many families as they choose. The proposal would make other significant changes to the program, which are illustrated in the table below.

**Table 4. Comparison of FVP Proposal to Existing Program**

	<b>Housing choice voucher program</b>	<b>FVP proposal</b>
<b>Eligibility</b>	Families are generally eligible if their <i>adjusted gross incomes</i> are 50% or below area median income. 75% of all vouchers must be targeted to households with adjusted gross incomes at 30% or below area median income. Income must be reexamined <i>annually</i> .	Families would be eligible if their <i>gross incomes</i> were 80% or below area median income. The FVP would have <i>no</i> targeting requirements. Income would be reexamined <i>every other year</i> and every three years for elderly or disabled households.
<b>Subsidy level</b>	A voucher is worth roughly the difference between 90-110% of the fair market rent minus 30% of a household's adjusted gross income. In FY2004, CBO estimates that the average voucher is worth \$6,483 per year.	PHAs could provide whatever subsidy level they chose. If the PHA provided downpayment assistance, the maximum grant would be \$10,000.
<b>Housing quality standards</b>	Units must be inspected <i>prior to</i> a family's occupancy to ensure that they meet federal HQS standards, or, if the PHA chooses, state or local HQS standards, <i>if they are stricter</i> . Each unit under contract must be reinspected annually.	Units would be required to be inspected <i>within 60 days</i> of a family's occupancy to ensure that they meet the local, state or federal HQS standards, as chosen by the PHA. <i>One-quarter</i> of all units under contract with the PHA would be required to be reinspected annually.

**Source:** Prepared by the Congressional Research Service.

The FVP proposal could help increase administrative flexibility for PHAs as well as contain the rapidly growing costs of the current voucher program. PHA groups and low-income housing advocates have expressed concerns that adopting a block grant funding structure could lead to large funding cuts for low-income housing assistance in the future. They are also concerned that this proposal, with its accompanying funding cut, could drastically change the character of the current program by forcing PHAs to choose between serving higher-income families, forcing families to pay more for their housing, or serving fewer families. HUD officials stated during a hearing before the VA, HUD and Independent Agencies Appropriations Subcommittee on March 4, 2004, that they did not intend to introduce legislation to enact the FVP proposal; rather, they hoped that the Appropriations Committees would include the proposal in the FY2005 appropriations bill. The House Financial Services Committee, in their Views and Estimates of the President's FY2005 Budget, included a position that was critical of the President's FVP proposal. The Chairman of the Senate VA, HUD and Independent Agencies Appropriations Subcommittee stated in a hearing on April 1, 2004 that the Flexible Voucher Proposal is "a poor substitute for flaws in the program" and that the Committee would not have the "luxury of time to consider fully" the proposal this year.<sup>3</sup> A similar voucher reform initiative was proposed by the Administration for FY2004, however, no congressional action was taken on the proposal.

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<sup>3</sup> Statement of Senator Kit Bond, VA- HUD Appropriations Subcommittee FY2005 Budget Hearing, Apr. 1 2004.

The House Appropriations Committee bill did not adopt the FVP proposal and, instead, continued to fund the existing Section 8 program. In rejecting the FVP proposal, the report language accompanying the bill stated:

The Committee has taken this action without prejudice toward the merits of the individual proposal but strictly because such changes fall outside the Committee's jurisdiction. However, the Committee strongly urges the authorization committees to take the actions necessary to reform the program. The Committee is concerned that absent such reform, the viability of all HUD programs, including the Section 8 program, will be compromised.

The Senate Appropriations Committee bill also did not adopt the FVP proposal. The Committee Report expressed skepticism about the Administration's proposal:

Finally, the Committee does not agree with the administration's belief that the section 8 program is so flawed that it cannot be corrected without a conversion of the program into a block grant to the States or to public housing agencies. Without a commitment of adequate funding, the block grant approach will result in a shrinking commitment to housing resources for those with the greatest needs.

The final Consolidated Appropriations Act (P.L. 108-447), like the House and Senate versions, does not adopt the FVP. The conference report is silent on the merits or weaknesses of the proposal.

For more information on the Section 8 program, see CRS Report RL32284, *An Overview of the Section 8 Housing Program*.

**Public Housing Programs.** Public housing provides publicly owned and subsidized rental units for very 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. The Operating Fund provides funds to PHAs for the ongoing maintenance and administration of public housing. The Capital Fund provides funding to PHAs for large capital projects and modernization needs. Certain set-asides are made from both these funds, as shown in **Table 5**. HOPE VI is a competitive grant program that provides funds to help demolish and/or redevelop severely distressed public housing developments, with a focus on building mixed-income communities.



**Table 5. Public Housing, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Public Housing Operating Fund</b>	<b>\$3,579</b>	<b>\$3,573</b>	<b>\$3,425</b>	<b>\$2,610</b>	<b>\$2,458</b>
— Department of Justice crime prevention <sup>a</sup>	10	0	10	0	8
— Graduation bonuses	—	15	0	15	10
— Transition costs	—	—	—	30	0
<b>Public Housing Capital Fund</b>	<b>\$2,696</b>	<b>\$2,674</b>	<b>\$2,580</b>	<b>\$2,700</b>	<b>\$2,600</b>
— Technical assistance	50	35	38	35 <sup>b</sup>	26 <sup>c</sup>
— Troubled agency intervention activities/Judicial receivership	0	10	5	15 <sup>b</sup>	13 <sup>c</sup>
— Existing judicial receivership	—	—	—	—	3
— Section 23 lease-adjustments	1	0	0	d	0
— Working Capital Fund	10	5	10	5	10
— Emergency repairs	40	50	38	50	30
— Service coordinators and supportive services (ROSS)	55	55	53	55	54
— Neighborhood Networks	15	0	0	15	15
— Demolition of distressed public housing	0	30	0	30	0
— Freedom to House Demonstration Initiative	—	5	0	0	0
<b>HOPE VI</b>	<b>\$149</b>	<b>\$0</b>	<b>\$143</b>	<b>\$150</b>	<b>\$144</b>

**Source:** See **Table 2**.

- a. These funds are transferred to the Department of Justice for Weed and Seed Programs, which funds crime prevention and community policing activities. For more information on Weed and Seed, see [<http://www.ojp.usdoj.gov/ccdo/whatsnew.htm>].
- b. The Senate bill specifies that \$50 million is available for technical assistance, up to \$15 million of which can be used for troubled agency activities.
- c. The Consolidated Appropriations law specifies that \$38.7 million is available for technical assistance, up to \$12.5 million of which can be used for troubled agencies.
- d. The Senate bill provides “such funds as may be necessary” for Section 23 lease adjustments.

**Highlights:**

**Voluntary Graduation Bonuses.** This new Administration proposal would provide bonus funds to PHAs who exceed a baseline number of families who have exited public and assisted housing. The stated goal is to “move program participants away from dependency on public housing assistance programs.”

The House Appropriations Committee did not adopt the President’s Voluntary Graduation Bonus proposed set-aside. Instead, the Committee, in their report, “strongly encourages the authorization committee of jurisdiction to examine this proposal.”

The Senate Appropriations Committee bill proposed to set aside the full \$15 million requested by the President for bonuses to be given by HUD to PHAs that “assist program participants in moving away from dependence on housing assistance programs.”

P.L. 108-447 sets aside \$10 million for a program “to provide bonus funding for PHAs that assist families moving away from dependency on housing assistance programs.” The conferees state that they expect HUD to allocate the funds through a Notice of Funding Availability (NOFA) “that provides clear eligibility criteria for the program.”

**Freedom to House Demonstration.** This demonstration, according to the Administration, would test reforms that would allow PHAs to operate on an asset-based model, which they contend is more in line with market realities. An “experimental” group of PHAs would be granted full fungibility between their Operating and Capital funds as well as the flexibility to test local rent-setting policies. Their reporting requirements would be streamlined and they would be required to operate under an asset-based management and accounting system. The financial and physical outcomes of these experimental PHAs would be compared to similar PHAs who are not participating in the demonstration.

Neither the House, Senate, nor final versions of the FY2005 HUD funding bill included the Freedom to House Demonstration.

**Accounting Change in the Operating Fund.** The Senate Appropriations Committee bill proposed providing almost \$1 billion less than the President requested for the Public Housing Operating Fund. However, the report accompanying S. 2825 (S.Rept. 108-353) directs the Secretary to convert all PHAs administering Public Housing to a single fiscal year start date. According to the Committee report, this accounting maneuver, adopted in FY2004 in the Housing Certificate Fund, would reduce the amount needed to fund the Operating Fund in FY2005 by over \$1 billion. The Committee also set aside \$30 million within the Operating Fund to be used to help PHAs transition to the new accounting system. P.L. 108-447 adopted the Senate’s proposed accounting change and therefore realized the same savings. However, the final bill does not provide transition funds for PHAs.

**HOPE VI Funding.** FY2005 is the second year that the Administration has proposed a zero-funding level for the HOPE VI program for revitalizing public

housing. In FY2004, Congress responded to the President's request by funding the program at \$149 million, which was down from the over \$570 million provided in FY2003. HUD has stated in testimony before Congress that the HOPE VI program has largely met its goal of eliminating the worst public housing in the nation. Furthermore, they argue that the program is flawed because it has been plagued by slow development and high per-unit costs. In its place, the Administration has proposed that \$30 million be provided within the Capital Fund for public housing demolition purposes.

The HOPE VI program has been popular with many Members of Congress. For example, the Chairman of the Senate Appropriations Committee, VA-HUD Subcommittee stated at a hearing on April 1, 2004 that:

[He] continue[s] to be troubled by the Department's decision to eliminate all funding for the Public Housing HOPE VI program.... It largely has worked well and deserves to be funded or replaced with a program that is better equipped to address the remaining stock of distressed public housing.<sup>4</sup>

The House Appropriations Committee bill would have provided funding for HOPE VI, at \$143 million. The Senate Committee bill proposed to fund the program at \$150 million. The final funding act, P.L. 108-447, provides \$144 million for HOPE VI in FY2005.

For more information on the HOPE VI program, see CRS Report RL32236, *HOPE VI: Background, Funding, and Issues in the 108<sup>th</sup> Congress*.

**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 authorized 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.

**Table 6. Native American Block Grants, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Native American Block Grants</b>	\$650	\$647	\$622	\$650	\$627

Source: See Table 2.

**Congressional Response.** The conferees agreed to \$627 million for FY2005, \$23 million less than enacted for FY2004.

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<sup>4</sup> Statement of Senator Kit Bond, VA-HUD Appropriations Subcommittee FY2005 Budget Hearing, Apr. 1, 2004.

## Community Planning and Development

**Housing for Persons with AIDS (HOPWA).** 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.

**Table 7. HOPWA, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>HOPWA</b>	<b>\$295</b>	<b>\$295</b>	<b>\$282</b>	<b>\$295</b>	<b>\$284</b>
— Training and tech.assist.	—	3	2	3	3

Source: See Table 2.

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.

**Table 8. Rural Housing and Economic Development, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Rural Housing and Economic Development</b>	<b>\$25</b>	<b>\$0</b>	<b>\$24</b>	<b>\$25</b>	<b>\$24</b>

Source: See Table 2.

### Highlights:

**Administration Request and Congressional Response.** The Administration did not request funds in FY2002, FY2003, FY2004, or FY2005, arguing that many of HUD's core programs, such as Community Development Block Grants, already serve rural communities, and because other departments like the Department of Agriculture have very large and effective programs for rural communities. However, Congress has continued to appropriate funds, differentiating this housing program from the Department of Agriculture's programs and their

separate appropriations. The conferees agreed to \$24 million for FY2005 and requires HUD to competitively award funds no later than September 1, 2005.

**Empowerment Zones (EZ) and Enterprise Communities (EC).** This federal 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.

**Table 9. Empowerment Zones and Enterprise Communities, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>EZ/EC</b>	\$15	\$0	\$14	\$0	\$10

Source: See Table 2.

**Highlights:**

**Administration Request and Congressional Response.** The Administration did not propose any new funding in support of the EZ/EC program. The conferees provided \$10 million for grants in connection with a second round of empowerment zones and enterprise communities, to remain available until September 30, 2005.

**Community Development Fund/Block Grants.** The 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.

**Table 10. Community Development Fund, FY2004 to FY2005**  
(in millions)

	<b>FY2004 enacted</b>	<b>FY2005 request</b>	<b>FY2005 House</b>	<b>FY2005 Senate</b>	<b>FY2005 Conf.</b>
<b>Community Development Fund</b>	\$4,934	\$4,618	\$4,711	\$4,950	\$4,709

Source: See Table 2.

During its 30-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. For FY2004, CDBG funds were allocated by formula to 1,165 entitlement communities, 50 states, and the Commonwealth of Puerto Rico. This is 71 more entitlement communities than the FY2003 total. 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%.

**Table 11. Community Development Block Grants (CDBG)  
and Related Set-Asides, FY2004 to FY2005**  
(in millions)

<b>Program</b>	<b>FY2004 enacted</b>	<b>FY2005 request</b>	<b>FY2005 House</b>	<b>FY2005 Senate</b>	<b>FY2005 Conf.</b>
<b>Total: CDF, CDBG</b>	<b>4,933.73</b>	<b>4,618.09</b>	<b>4,711.00</b>	<b>4,950.00</b>	<b>4,709.00</b>
Formula-based (entitlement communities)	3,031.56	3,026.71	3,008.53	3,183.39	2,900.13
Formula-based (state allocation)	1,299.24	1,297.16	1,289.37	1,364.31	1,242.91
Insular areas	0.00	6.96	7.00	0.00	7.00
P.L. 108-199 Sec. 165 <sup>a</sup>	9.94	0.00	0.00	0.00	0.00
P.L. 108-199 Sec. 167 <sup>b</sup>	2.99	0.00	0.00	0.00	0.00
Set-asides (see below for details)	590.00 <sup>c</sup>	287.26	406.10	402.30	558.97
<b>Set-asides:</b>					
Indian Tribes	71.58	71.58	69.00	72.00	69.00
<i>Emergencies</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>4.00</i>
Housing Assistance Council	3.28	3.28	3.20	3.30	3.30
National American Indian	2.49	2.49	2.40	2.50	2.40

<b>Program</b>	<b>FY2004 enacted</b>	<b>FY2005 request</b>	<b>FY2005 House</b>	<b>FY2005 Senate</b>	<b>FY2005 Conf.</b>
Housing Council					
National Housing Development Corporation	4.97	0.00	4.80	0.00	4.80
National Council of La Raza	4.97	0.00	4.80	0.00	4.80
Section 107	51.69	35.29	36.70	51.00	43.70
<i>Insular areas</i>	<i>6.96</i>	<i>0.00</i>	<i>0.00</i>	<i>7.00</i>	<i>0.00</i>
<i>Technical assistance</i>	<i>1.49</i>	<i>1.49</i>	<i>1.40</i>	<i>0.00</i>	<i>1.40</i>
<i>Hawaiian Homelands Homeownership</i>	<i>9.44</i>	<i>0.00</i>	<i>9.00</i>	<i>10.00</i>	<i>9.00</i>
<i>Historically Black Colleges and Universities</i>	<i>10.44</i>	<i>10.44</i>	<i>10.00</i>	<i>11.00</i>	<i>10.00</i>
<i>Hispanic-Serving Institutions</i>	<i>6.96</i>	<i>6.96</i>	<i>6.70</i>	<i>7.00</i>	<i>6.70</i>
<i>Community Development Work Study</i>	<i>2.98</i>	<i>2.98</i>	<i>2.90</i>	<i>3.00</i>	<i>2.90</i>
<i>Alaskan Native and Native Hawaiian-Serving Institutions</i>	<i>3.48</i>	<i>3.48</i>	<i>0.00</i>	<i>4.00</i>	<i>4.00</i>
<i>Tribal Colleges and Universities</i>	<i>2.98</i>	<i>2.98</i>	<i>0.00</i>	<i>3.00</i>	<i>3.00</i>
<i>Community outreach partnership</i>	<i>6.96</i>	<i>6.96</i>	<i>6.70</i>	<i>6.00</i>	<i>6.70</i>
Working capital fund	4.87	0.50	3.46	0.50 <sup>f</sup>	3.47
Self-Help homeownership opportunity	26.84	65.00	26.00	25.00	25.00
Capacity building	34.59	29.50	33.50 <sup>d</sup>	35.00	34.50 <sup>g</sup>
Special Olympics	0.00	0.00	2.00	0.00	2.00
Youthbuild	64.62	64.62	62.00	65.00	62.00 <sup>h</sup>
CDBG Development Challenge Pilot	0.00	10.00	0.00	0.00	0.00
CDBG Faith-based pilot	0.00	5.00	0.00	0.00	0.00
Neighborhood initiative demonstration	43.74	0.00	21.74	22.00	42.00
Economic development initiatives	276.36	0.00	136.50	126.00	262.00 <sup>i</sup>

**Source:** See **Table 2**. Also, from HUD Congressional Budget Justifications.

**Note:** Column totals may not add due to rounding.

- a. P.L. 108-199, Division H, Misc. Appropriations, Section 165 added \$9.94 million for an Alaskan Museum.
- b. P.L. 108-199, Division H, Misc. Appropriations, Section 167 added \$2.99 million in EDI grants.
- c. P.L. 108-199, Division H, Misc. Appropriations, Section 168 provided approximately \$600,000 for a grant to Shelter from the Storm. This is not included in figures from the House Appropriations Committee data as of Sept. 9, 2004 and is not included in this table.
- d. Includes \$28.8 million for National Community Development Initiative and \$4.8 million for Habitat for Humanity.
- e. Includes \$31.5 million for National Community Development Initiative, which includes LISC and Enterprise Foundation, and \$3.5 million for Habitat for Humanity.
- f. Transferred from \$51 million allocated to Section 107 activities.
- g. Includes \$30 million for National Community Development Initiative, which includes LISC and Enterprise Foundation, and \$4.5 million for Habitat for Humanity.
- h. Includes \$9 million for underserved and rural areas.
- i. In addition to the amounts shown in this table, P.L. 108-447 also appropriates \$31 million to the Community Development Fund for a grant to the Hudson River Park Trust (Division I, Title IV, Section 424).

### Highlights:

**Administration Request and Congressional Response.** The Administration's FY2005 budget proposed \$4.62 billion for the Community Development Fund, including \$4.32 billion for Community Development Block Grants (CDBG) to states and entitlement communities. For the formula portion of the program, which allocates grants to states and entitlement communities, the House bill, H.R. 5041, provided \$26 million less than requested by the Administration. However, the House bill provided \$93 million more in total appropriations for Community Development Fund programs (CDBG and related set-asides and earmarks) than requested by the Administration. The Senate measure, S. 2825, recommended \$4,547.7 billion for the formula portion of the CDBG program. This is \$223.8 million more than requested by the Administration. Overall, the Senate bill recommended an appropriation of \$4.95 billion for CDF activities. This is \$331.9 million more than requested by the Administration, with the majority of the funds allocated to the formula portion of the CDBG program.

The final consolidated appropriations measure, H.R. 4818, which was signed by the President on December 8, 2004, as P.L. 108-447, provided \$4.709 billion for the Community Development Fund. This includes \$4.150 billion for the formula portion of the Community Development Block Grant (CDBG) program and \$559 million in CDBG-related set-asides.

**New Entitlement Communities.** The addition of 71 new CDBG entitlement communities in FY2004, coupled with the Administration's budget request of \$4.618 billion for FY2005, down 2% then the FY2004 appropriation, may result in a reduction in the FY2005 allocation of individual entitlement communities and states. On average, entitlement communities and states experienced a 4% reduction in CDBG funding from FY2003 to FY2004, due in part to an increase in the number of CDBG entitlement communities coupled with a slight decrease in total CDBG funding, from \$4,339.5 million to \$4,330.8 million. In FY2004, although entitlement communities experienced a reduction in funding, state administered programs were the most significantly impacted by the 6% increase in the number of entitlement communities with Alaska and Nevada state-administered CDBG programs experiencing funding reductions of 14.8 % and 13.3%, respectively.



The FY2005 appropriations of \$4.150 billion for CDBG entitlement communities and states will also result in a small reduction of approximately 4% in the formula allocation to some states and entitlement communities. The amount of reduction will depend on such factors as the number of new entitlement communities and changes in a community or state's formula factors, including population, poverty, age of the housing stock, and overcrowded housing conditions.

**Earmarks and Set-Asides.** In addition to CDBG formula grants, a number of categorical programs are also funded in support of CDBG activities under the heading Community Development Fund. These include competitive grant programs, such as Youthbuild and the Administration's proposed \$5 million faith-based initiative; set-asides for insular areas and college and university partnerships; and earmarks, such as the Economic Development Initiative (EDI) and Neighborhood Initiative (NI) programs. Although the Administration supports a number of these categorical programs, it has consistently opposed the earmarking of EDI and NI funding. The Administration's FY2005 budget request included no funding for EDI and NI projects, which is consistent with Administration budget recommendations in previous years. Despite Bush Administration objections that these programs are noncompetitive and siphon funds from CDBG and other programs, Congress has traditionally provided funding for EDI and NI designated projects. In FY2004, Congress awarded over \$280 million to more than 900 congressionally designated EDI projects. It also provided \$43 million for NI projects. For FY2005, P.L. 108-447 includes \$559 million in funding for various CDF set-asides.

Because of competing budget demands and a desire to constrain spending, neither the House or Senate Appropriations Committee versions of the VA-HUD-Independent Agencies Appropriation Act for FY2005, or P.L. 108-447 provided funding for two CDBG-related initiatives proposed by the Administration: a \$5 million faith-based pilot program and a \$10 million community challenge grant. Further, H.R. 5041 proposed a reduction of \$223 million in total funding for CDBG and related activities. Although much of the proposed reduction in funds would have been targeted to two earmarked funding accounts, namely, the Economic Development Initiative and the Neighborhood Initiative, the formula portion of the program would have also been reduced below the program's FY2004 appropriation level. Entitlement communities would have received \$23 million less than the amount appropriated for FY2004 and the formula allocation to states and communities would have been reduced by almost \$10 below the FY2004 appropriation level. The Senate Appropriations Committee's bill, S. 2825 (S.Rept. 108-353), would have increased the CDBG formula program by \$216.9 million above the amount made available for FY2004. Total funding for CDF programs under the Senate bill would have increased by only \$16.27 million. This is because the increase in funding for the CDBG formula-based program would have been offset by a \$200.6 million decrease in funding for CDBG-related set-aside and earmark programs and activities.

The final version of the VA, HUD, and Independent Agencies Appropriations Act for FY2005, as incorporated in P.L. 108-447, includes \$44 million less in earmarks and set-asides than the \$603 million appropriated for such activities in FY2004. The EDI program funding, which earmarks funds for specific projects, was reduced by \$17 million to \$262 million, but the number of total EDI projects

increased to 1,032 compared to more than 900 approved in FY2004. The NI program, which earmarks funds to community development corporations, also experienced a small reduction in funding of approximately \$1.7 million. The Act also shifts \$7 million for insular areas previously included as a set-aside to the formula portion of the program, and does not include \$10 million in funding for an Alaskan Museum that was included in the FY2004 appropriations. The Act does include \$31 million for the Hudson River Trail Park and Trust, located in New York City, but funding for this specific earmark activity is included as Sec. 424 of the General Provisions of Title IV of Division I, and is not included in the CDF total.

**Brownfields Redevelopment.** Brownfield redevelopment funds are used to reclaim abandoned and contaminated commercial and industrial sites, often as part of inner-city neighborhood redevelopment efforts. Some view these efforts as “smart growth,” making use of the existing infrastructure.

**Table 12. Brownfields Redevelopment, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Brownfields Redevelopment</b>	\$25	\$0	\$24	\$25	\$24

Source: See Table 2.

**Highlights:**

**Administration Request and Congressional Response.** In recent years, the Administration has expressed the view that brownfields activities should be turned over to the Environmental Protection Agency. Thus far, Congress has not agreed. The House Appropriations Committee recommended \$24 million for FY2005 and “expected HUD to closely coordinate its brownfields efforts with the Environmental Protection Agency...” The Senate Appropriations Committee provided \$25 million. The final funding act, P.L. 108-447, provides \$24 million.

For more details, see CRS Issue Brief IB10114, *Brownfields and Superfund Issues in the 108<sup>th</sup> Congress* and CRS Report RL30972, *The Brownfields Program Authorization: Cleanup of Contaminated Sites*.

**The HOME Investment Partnership Program.** 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 program.

**Table 13. The HOME Investment Program, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>HOME (total)</b>	<b>\$2,006</b>	<b>\$2,084</b>	<b>\$1,920</b>	<b>\$2,050</b>	<b>\$1,915</b>
— Formula grants	1,856	1,860	1,776	1,933	1,799
— American Dream Downpayment Initiative	87	200	85	50	50
— Insular areas	4	4	4	4	4
— HOME/CHDO Technical Assistance	18	18	17	18	18
— Housing counseling	40	a	38	45	42
— Working capital fund transfer	2	b	2	b	2
PATH	c	2	c	c	c

**Source:** See **Table 2**.

- a. Proposed that Housing Counseling be funded in a separate account.
- b. Proposed \$200,000 transfer.
- c. Funded in the Policy Development and Research account.

### Highlights:

For FY2005, the Administration requested \$2.084 billion for the HOME Program, \$78.6 million more than enacted in FY2004. The proposal would provide \$1.86 billion in HOME formula grants, of which \$1.116 billion would be allocated to participating jurisdictions (PJs) and \$744 million would be allocated to states. Funding set aside for the American Dream Downpayment Initiative would be increased to \$200 million instead of the \$87 million appropriated in FY2004. The Administration requested that Housing Counseling Assistance be funded at \$45 million, an increase of \$5 million over the FY2004 level. Instead of being funded within the HOME program, the Administration requested that counseling be funded in a new free-standing appropriation account under the Housing Programs section of the HUD budget. No new initiatives were proposed for the HOME program.

**Congressional Response.** The House Appropriations Committee recommended \$85 million for the American Dream Downpayment Initiative, considerably less than the \$200 million requested. The Committee noted that this reduction “is taken without prejudice, and is due to other significant funding pressures in this bill.” The Senate Appropriations Committee recommended only \$50 million for this initiative. It noted its concern that the “program may be helping families with excessive credit risk and who may not be the best candidates for homeownership.” The Committee requested that, by July 31, 2005, HUD submit a report on default activity under the program. The Committee further noted a recent GAO review of the program which suggests that HUD would be unlikely to be able

to obligate more than \$40 to \$50 million for the Initiative during FY2005. The conferees agreed to provide \$50 million for the program. The House and Senate Committees did not recommend creating a separate account for housing counseling. On another matter, the House Committee expressed its concern that recent changes to metropolitan statistical area (MSA) boundaries could significantly lower area median incomes (AMI) in some communities with high housing costs, making ineligible many families and individuals who are currently eligible for housing subsidized through the HOME and Community Development Block Grant programs. The Committee encouraged HUD to explore ways to address this matter, other than through any adjustment of funding formulas.

**Homeless Programs.** 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. The Samaritan Housing Initiative is a new Administration proposal that was first introduced in FY2004.

**Table 14. HUD Homeless Programs, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Homeless Assistance Grants</b>	<b>\$1,260.0</b>	<b>\$1,282.0</b>	<b>\$1,206.0</b>	<b>\$1,260.0</b>	<b>\$1,250.5</b>
— Homeless Management Information Systems (HMIS)	12.0	11.9	11.5	12.0	11.5
— Prisoner Re-entry	—	25.0	0.0	0.0	0.0
— Working Capital Fund	2.6	0.5	2.5	0.5	2.5
<b>Emergency Food and Shelter<sup>a</sup></b>	—	<b>\$153.0</b>	—	—	—
<b>Samaritan Housing Initiative</b>	<b>\$0.0</b>	<b>\$50.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

Source: See Table 2.

- a. EFSP has been funded in the Homeland Security budget, under the Federal Emergency Management Agency (FEMA), including in FY2004, when it received \$152 million. The House, Senate, and final bills all continue funding EFSP through FEMA.

### Highlights:

**Prisoner Re-entry Initiative.** This new Administration proposal would provide money for a four-year initiative, to be jointly administered with the Department of Justice, to help individuals exiting prison make a successful transition to community life and long-term employment. This initiative was highlighted in President Bush's 2004 State of the Union address.

Neither the House bill, the Senate bill, nor the final Consolidated Appropriations Act (P.L. 108-447) provide funds for the Prisoner Reentry initiative.

**Consolidation.** As in FY2004, the Administration stated in its FY2005 budget proposal that it planned to submit legislation to Congress to consolidate the three existing competitive homeless programs into a single program that will provide added flexibility to grantees. No legislative language to consolidate the HUD homeless programs was introduced in the 108<sup>th</sup> Congress.

**Transfer of EFSP from FEMA to HUD.** The Administration proposed in its FY2005 budget 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. This transfer was also proposed in the FY2003 and FY2004 budgets, but was not adopted.

Neither H.R. 5041, S. 2825, nor P.L. 108-447 includes the proposed transfer or funds the EFSP program in the HUD bill.

**Samaritan Housing Initiative and Permanent Supportive Housing.** FY2005 is the second year that the President has requested funding for the Samaritan Housing Initiative. Funding was not provided in FY2004. This new competitive grant program would provide supportive housing grants through HUD to be used in coordination with Department of Health and Human Services and Department of Veterans' Affairs resources to support innovative local strategies to end chronic homelessness. Bills to authorize the Samaritan Initiative have been introduced in both the House and Senate (H.R. 4057 and S. 2829)

Like the House and Senate bills, P.L. 108-447 does not provide funding for the Samaritan Initiative. The report accompanying the House bill noted that the authorizing legislation for the program had not yet passed Congress. Although the Samaritan Initiative was not funded, a set-aside of 30% of Homeless Assistance Grants funds for permanent supportive housing was included in the President's budget request, the House and Senate versions and the final FY2005 appropriations bill.

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

## Housing Programs and Administration

**Housing for the Elderly and Housing for the Disabled.** Formerly known as Housing for Special Populations, the Section 202 housing for the elderly and the Section 811 housing for the disabled programs provide capital grants for the development of additional new subsidized housing for these populations.

**Table 15. Section 202 and 811, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Housing for the Elderly (202)</b>	<b>\$774.0</b>	<b>\$773.0</b>	<b>\$741.0</b>	<b>\$774.0</b>	<b>\$747.0</b>
Service coordinators	30.0	53.0	48.0	53.0	50.0
Grants for conversion to assisted living	25.0	30.0	20.0	30.0	25.0
Pre-development grants	30.0	0.0	15.0	20.0	18.0
Working Capital Fund	0.5	0.1	0.5	0.1	0.5
<b>Housing for the Disabled (811)</b>	<b>\$249.0</b>	<b>\$249.0</b>	<b>\$238.0</b>	<b>\$250.0</b>	<b>\$240.0</b>
Working Capital Fund	0.5	0.1	0.5	0.1	0.1
Amount available for use as tenant-based rental assistance <sup>a</sup>	25%	25%	10.0	25%	10.0
Tenant-based rental assistance contract amendments	<sup>b</sup>	<sup>b</sup>	29.0	<sup>b</sup>	28.9

**Source:** See Table 2.

- a. With the exception of H.R. 5041, all bills specify that up to 25% of Section 811 funds can be used for tenant-based rental assistance. H.R. 5041 specifies a dollar amount.
- b. With the exception of H.R. 5041, all bills specify contract amendments for tenant-based rental assistance as an allowable use of grant dollars without specifying an amount for that use.

### Highlights:

**NORCs and the State of the Elderly Housing Stock.** The conference report accompanying P.L. 108-447 directs the Secretary of HUD to work with the Department of Health and Human Services (HHS) to better meet the needs of naturally occurring retirement communities (NORCs). The report also expressed concern about the condition of the Section 202 (and Section 236) housing stock. The report noted that HUD was directed in the FY2004 appropriations conference agreement to report to Congress on the needs and conditions of this stock of housing for the elderly by August 15, 2004. Since HUD did not submit that report, the Committee directs the Secretary to submit it by December 15, 2004.

**Federal Housing Administration (FHA).** The FHA administers a variety of mortgage insurance programs that insure lenders against loss from loan defaults by borrowers. Through FHA insurance, lenders make loans that otherwise may not be available, and enable borrowers to obtain loans for home purchase and home improvement as well as for the purchase, repair, or construction of apartments, hospitals, and nursing homes. The programs are administered through two program accounts — the Mutual Mortgage Insurance/Cooperative Management Housing Insurance fund account (MMI) and the General Insurance/Special Risk Insurance fund account (GI/SRI). The MMI fund provides insurance for home mortgages. The

GI/SRI fund provides insurance for more risky home mortgages, for multifamily rental housing, and for an assortment of special purpose loans such as hospitals and nursing homes.

As shown in **Table 16** below, FHA has negative appropriations, which means that the income to the program from insurance premiums exceeds the program expenses. This suggests that, in FY2004, the FHA program contributed about \$2.479 billion to the total HUD budget. Another way to look at it is that, because of the surplus generated by FHA, HUD needed \$2.479 billion less in appropriations in FY2004.

As requested, the House and Senate Appropriations Committees recommend an overall mortgage insurance commitment limitation of \$220 billion in loan commitments. The total includes \$185 billion under the MMI/CMHI Fund and \$35 billion under the GI/SRI Fund. A direct loan limitation of \$50 million is recommended for both the MMI/CMHI and GI/SRI funds. Direct loans facilitate the purchase of HUD-owned properties acquired for resale to low- and moderate-income families. A rescission of \$30 million is proposed from the unobligated balance of credit subsidy funding appropriated in prior years for the GI/SRI account.

For more information on FHA loan insurance programs, see CRS Report RS20530, *FHA Loan Insurance Programs: An Overview*.

**Table 16. Federal Housing Administration, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Total FHA Appropriations</b>	<b>(\$2,364)</b>	<b>(\$1,706)</b>	<b>(\$1,682)</b>	<b>(\$1,706)</b>	<b>(\$1,711)</b>
Expenses - MMI	442	438	436	438	435
Offsetting Receipts - MMI	(2,921)	(2,234)	(2,206)	(2,234)	(2,234)
<b>Net Appropriations - MMI</b>	<b>(2,479)</b>	<b>(1,796)</b>	<b>(1,770)</b>	<b>(1,796)</b>	<b>(1,799)</b>
Expenses - GI/SRI	340	330	328	330	328
Offsetting Receipts - GI/SRI	(225)	(240)	(240)	(240)	(240)
<b>Net Appropriations - GI/SRI</b>	<b>115</b>	<b>90</b>	<b>88</b>	<b>90</b>	<b>88</b>

Source: See Table 2.

### Highlights:

**New Legislative Proposals.** Three legislative changes were proposed for 2005. The Budget proposed a new FHA Payment Incentives mortgage program (or Sub-Prime loan product) which would permit prospective homebuyers to qualify for FHA insurance even though the borrowers would not meet existing underwriting

standards due to poor credit ratings. The borrowers would still be required to meet the FHA standards regarding debt, income, and repayment ability. The increased risk of default associated with these borrowers would be offset by requiring larger downpayments, higher upfront insurance premiums, and higher annual insurance premiums. After 60 months, the annual premiums would be reduced to 0.5% of the loan balance, as would ordinarily be charged for FHA-insured home loans.

The Budget also proposed a new Zero Downpayment Initiative (H.R. 3755) under which first-time homebuyers would be able to purchase a home with zero downpayment loans and finance the settlement costs. Such borrowers would also be charged higher insurance premiums to cover the increased risk involved in such loans.

The Administration further would amend Section 203(c) of the National Housing Act to restrict the payments of refunds of unearned upfront insurance premiums to borrowers who refinance with a new FHA loan. Current law provides that borrowers who prepay their loans may be due a refund of the prepaid insurance which was not “earned” by FHA. Under the proposal, borrowers who refinance their FHA loans with new FHA loans would be eligible for refunds of unearned premiums, but borrowers who obtain non-FHA loans to refinance their FHA loans would not be eligible for refunds of unearned premiums.

Under present rules, FHA considers the upfront insurance premium as earned by FHA when the loan has been outstanding for five years. After that period none of the prepaid insurance is refundable. The Administration plans to shorten the period and provide that the insurance is considered as earned by FHA when the loan has been outstanding for three years. This would be an administrative change.

**Congressional Response.** Neither the House or Senate Committee included funding for the proposed Zero Downpayment Initiative. The Senate Committee believes the proposal would pose “substantial financial risk” by making homeowners of high-risk borrowers with no stake in their houses and no financial cushion to pay for unexpected repairs. P.L. 108-447 amends Section 203(c) of the National Housing Act to provide that refunds of unearned insurance premiums would only be due to those borrowers who refinance their FHA-insured home loans with new FHA-insured loans.

**Office of Federal Housing Enterprise Oversight (OFHEO).** Within HUD, OFHEO is the “safety and soundness” regulator for the Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac. In recent years, there has been criticism that OFHEO has been ineffective in its watchdog role of the GSEs. For FY2004, nearly \$40 million was appropriated for this office, *offset by fees collected from Fannie Mae and Freddie Mac*. For FY2005, requested appropriations are \$59.2 million, with similar offsetting fees expected.

**Congressional Response.** The conferees agreed to \$59.2 million, an increase of \$19.5 million over the FY2004 enacted level to allow for enhancements to strengthen annual examinations, accounting treatment, and capital management analyses.



For more information on these programs, see CRS Report RL32069, *Improving the Effectiveness of GSE Oversight: Legislative Proposals*.

**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. The Fair Housing Assistance Program (FHAP) strengthens national 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 on a non-competitive basis. 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.

**Table 17. Fair Housing Programs, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Fair Housing</b>	<b>\$48</b>	<b>\$48</b>	<b>\$46</b>	<b>\$48</b>	<b>\$46</b>
Fair Housing Assistance Program	28	27	26	\$27	\$26
Fair Housing Initiatives Program	20	21	20	\$21	\$20

Source: See Table 2.

**Congressional Response.** The conference report provides \$46.5 million (rounded to \$46 million in Table 17), about \$1.5 million less than the FY2004 enacted level.

**Lead-Based Paint Hazard Reduction.** 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 paint hazards in homes that are at risk of not being modified through normal renovation or demolition activities. Despite the program, millions of housing units occupied by lower-income households remain contaminated with lead-based paint.

**Table 18. Lead-Based Paint Hazard Reduction Program, FY2004 to FY2005**  
(in millions)

	FY2004 enacted	FY2005 request	FY2005 House	FY2005 Senate	FY2005 Conf.
<b>Lead-Based Paint Hazard Reduction</b>	<b>\$174</b>	<b>\$139</b>	<b>\$167</b>	<b>\$175</b>	<b>\$168</b>

Source: See Table 2.

**Congressional Response.** The conferees agreed to \$168 million for the Lead-Based Hazard Reduction program, \$6 million less than the FY2004 enacted level but \$29 million above the Administration request. Of the total, \$47 million is to be made available on a competitive basis for areas with the highest lead paint abatement needs, as identified by the HUD Secretary as having: (1) the highest number of occupied pre-1940 units of rental housing; and (2) a disproportionately high number of documented cases of lead-poisoned children.

For more information, see CRS Report RS21688, *Lead-Based Paint Poisoning Prevention: Summary of Federal Mandates and Financial Assistance for Reducing Hazards in Housing*.