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EXECUTIVE SUMMARY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FISCAL YEAR 1997 BUDGET

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FYI
— J.

U.S. Department of Housing and Urban Development

Fiscal Year 1997 Budget

March 19, 1996

FY 1997 Budget Overview

- Empowering America's Communities
- Transforming Public & Assisted Housing
- Enhancing Homeownership Opportunities
- Creating a "Community-First" Department

Department of Housing and Urban Development
(Discretionary Dollars in Billions)

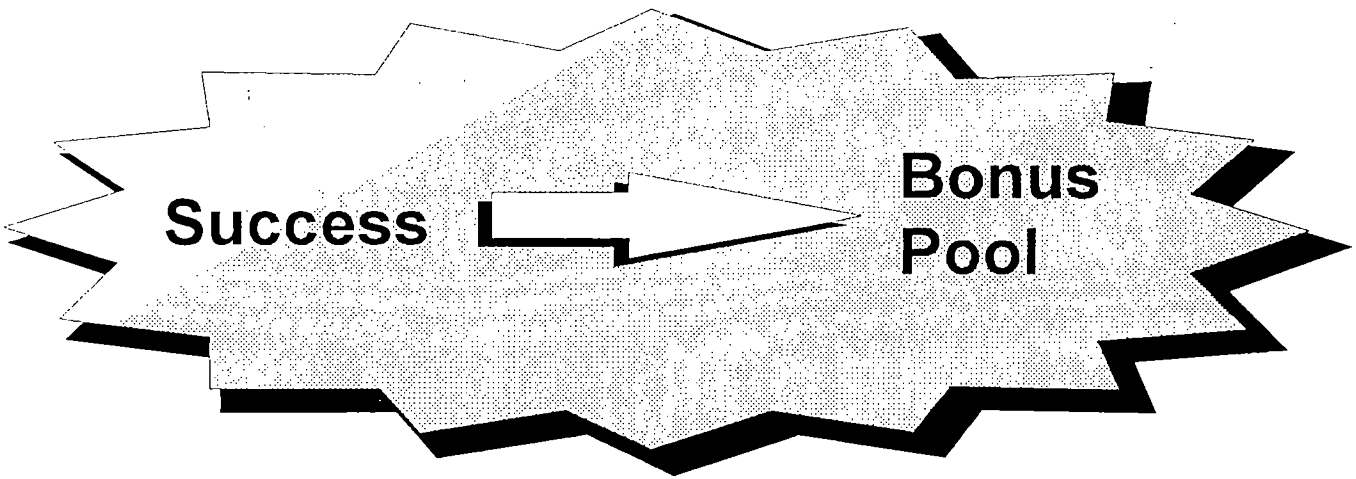
	FY1995	FY1996	FY1997	Difference
Budget Authority	$20.1	$20.3	$21.7	+ $1.4
Outlays	$31.8	$30.2	$33.2	+ $3.0

Three Performance Funds

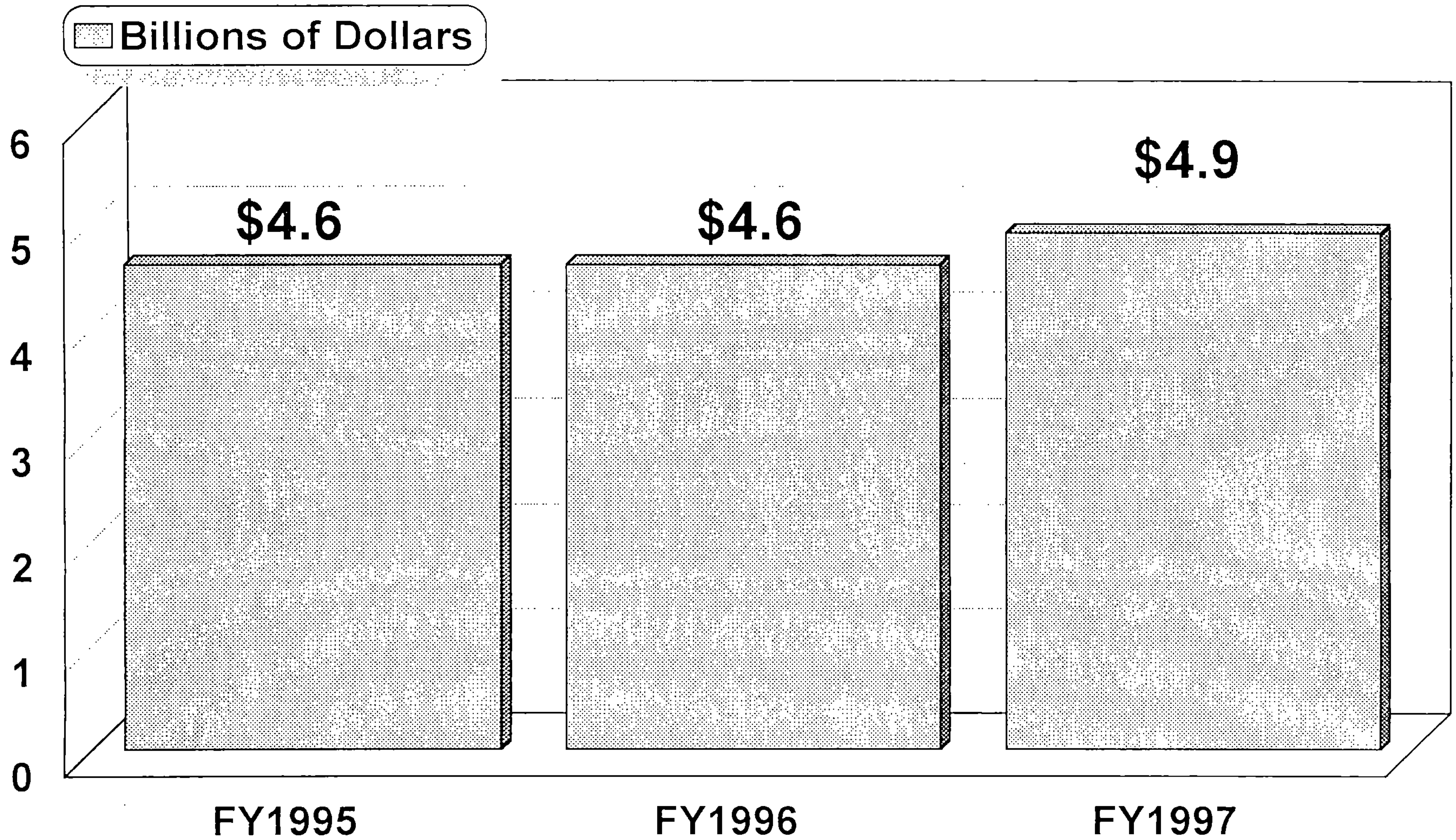
- Community Development Block Grants (CDBG)
- The HOME Program
- Homeless Assistance Fund

Community Development Block Grants

- Neighborhood Revitalization
- Community Development
- Infrastructure
- Public Amenities



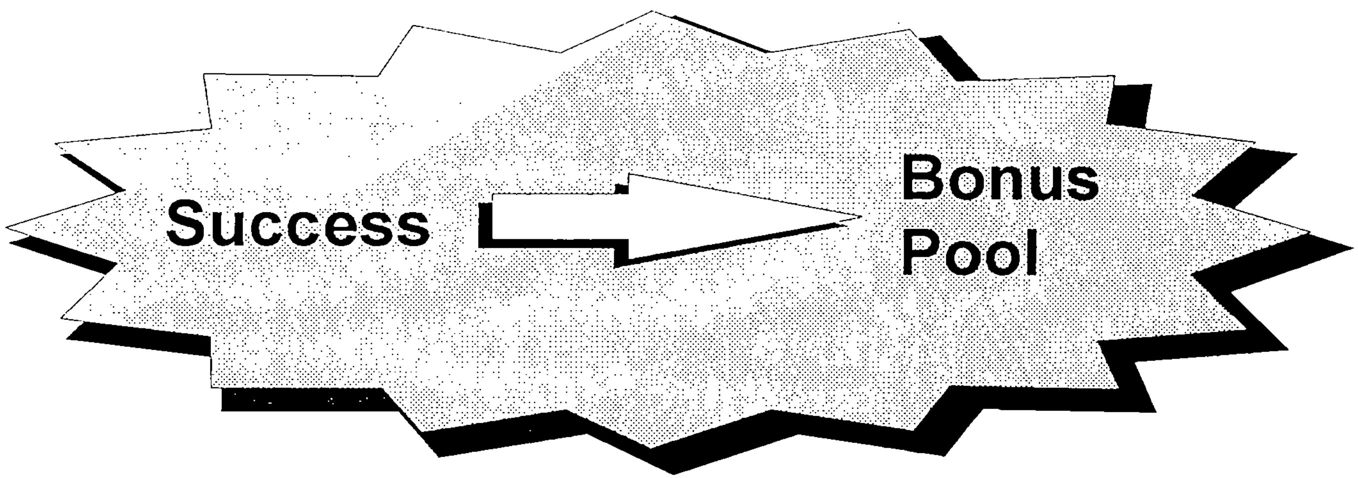
Community Development Block Grants



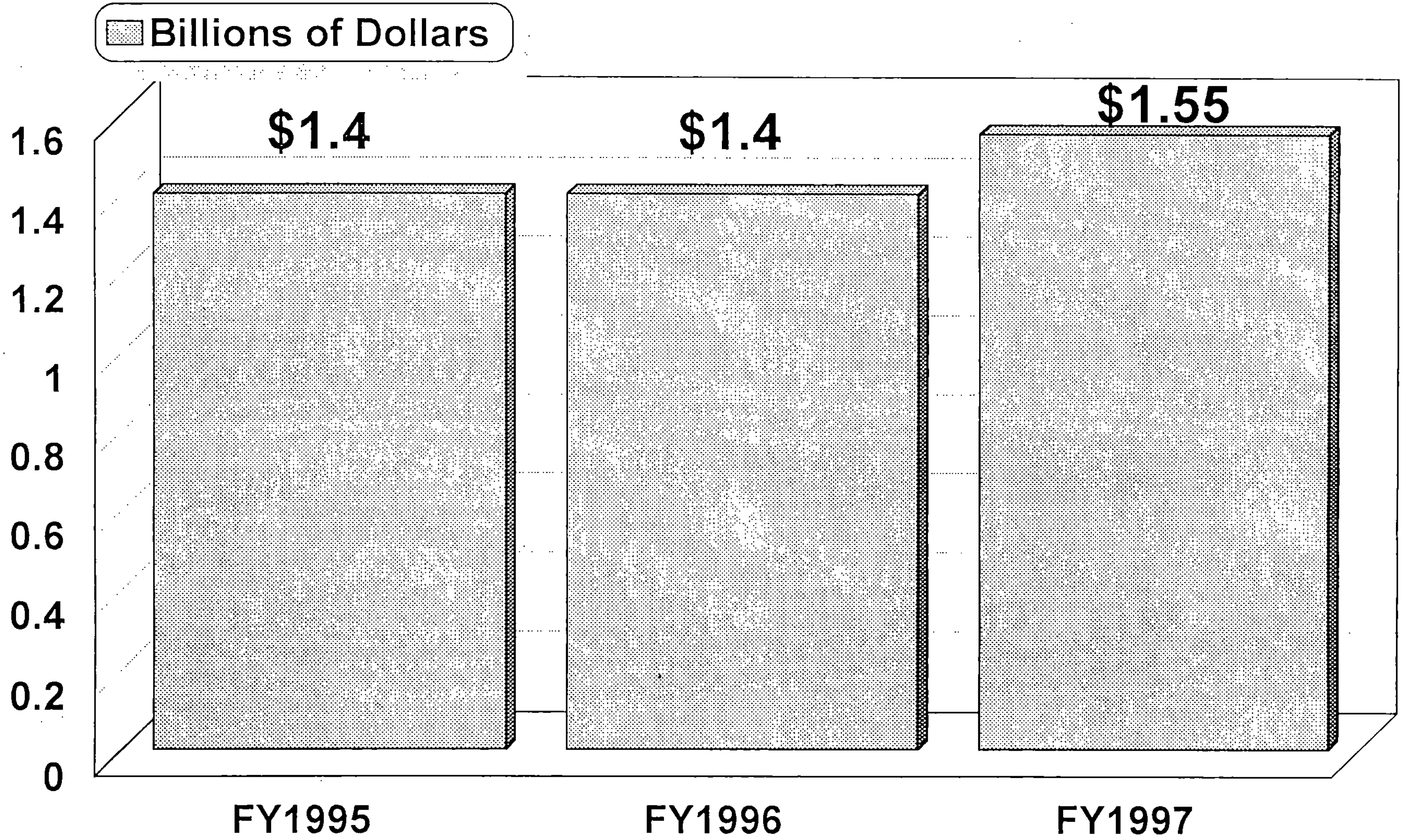
$300 Million Increase Over FY96

The HOME Program

- Rehabilitate Affordable Housing
- Assist First-time Home Buyers
- Tenant-based Rental Assistance



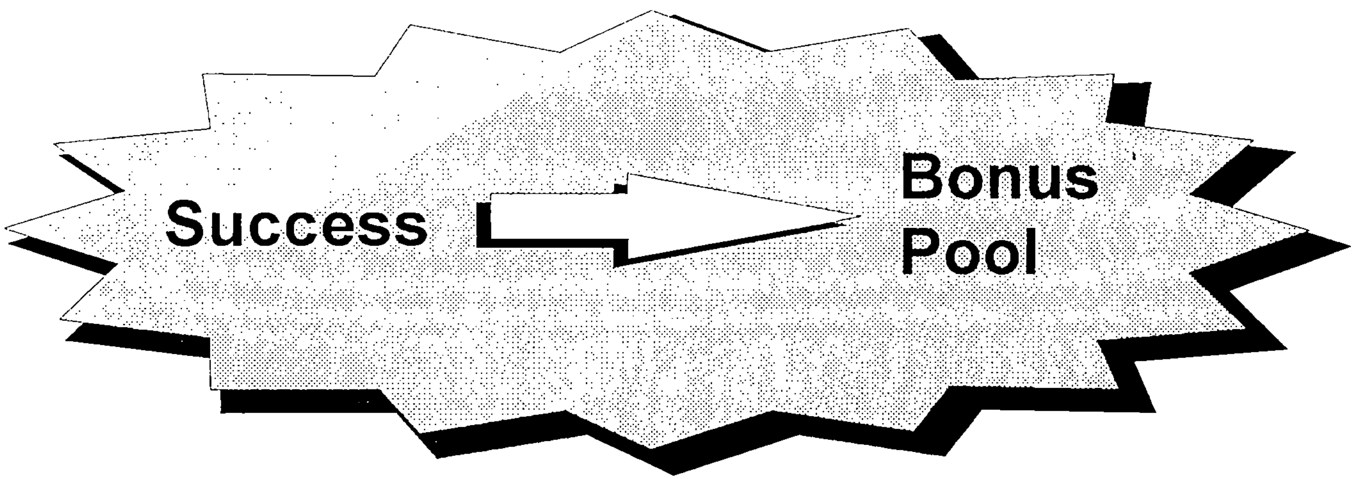
The HOME Program



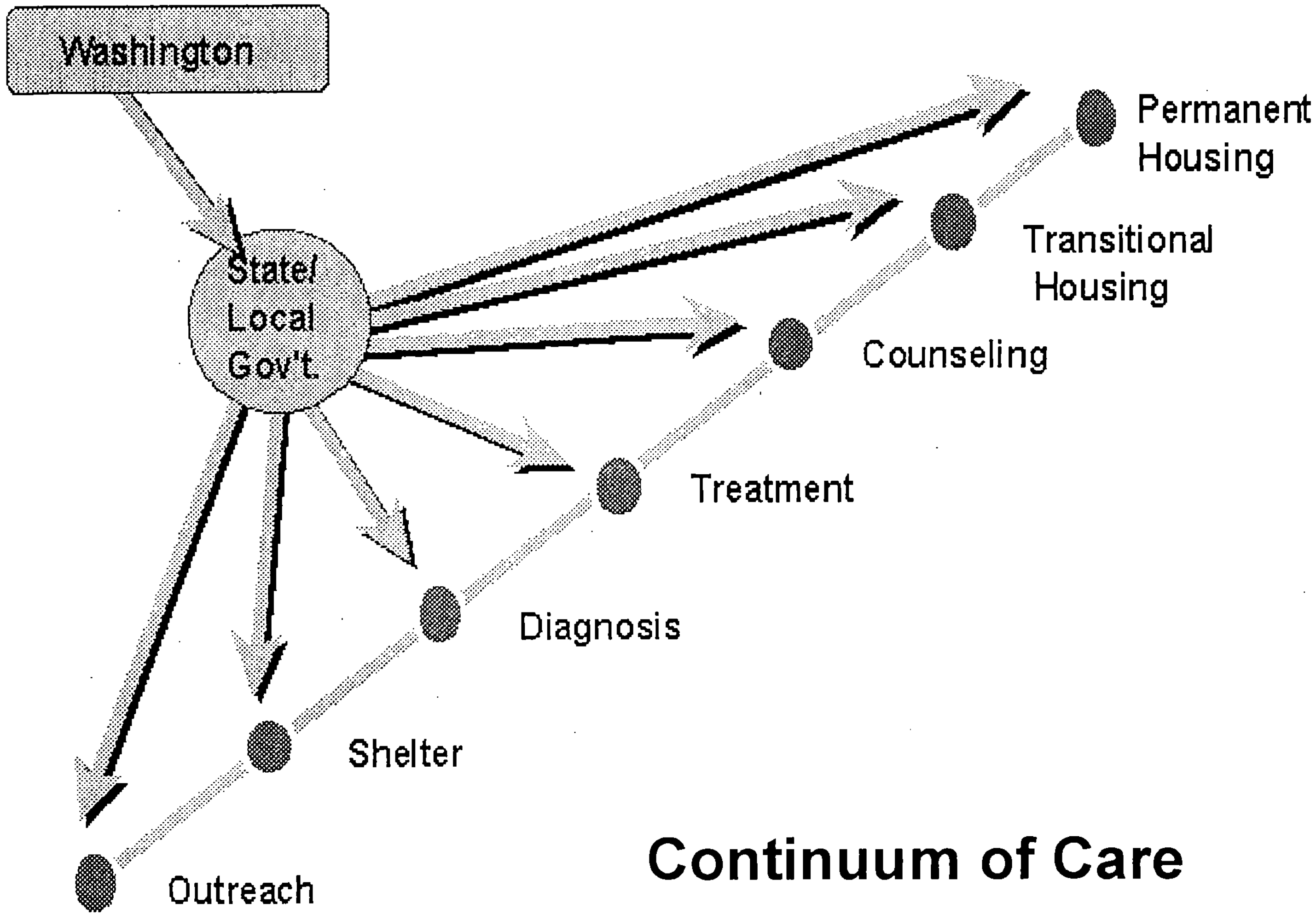
$150 Million Increase Over FY96

Homeless Assistance Fund

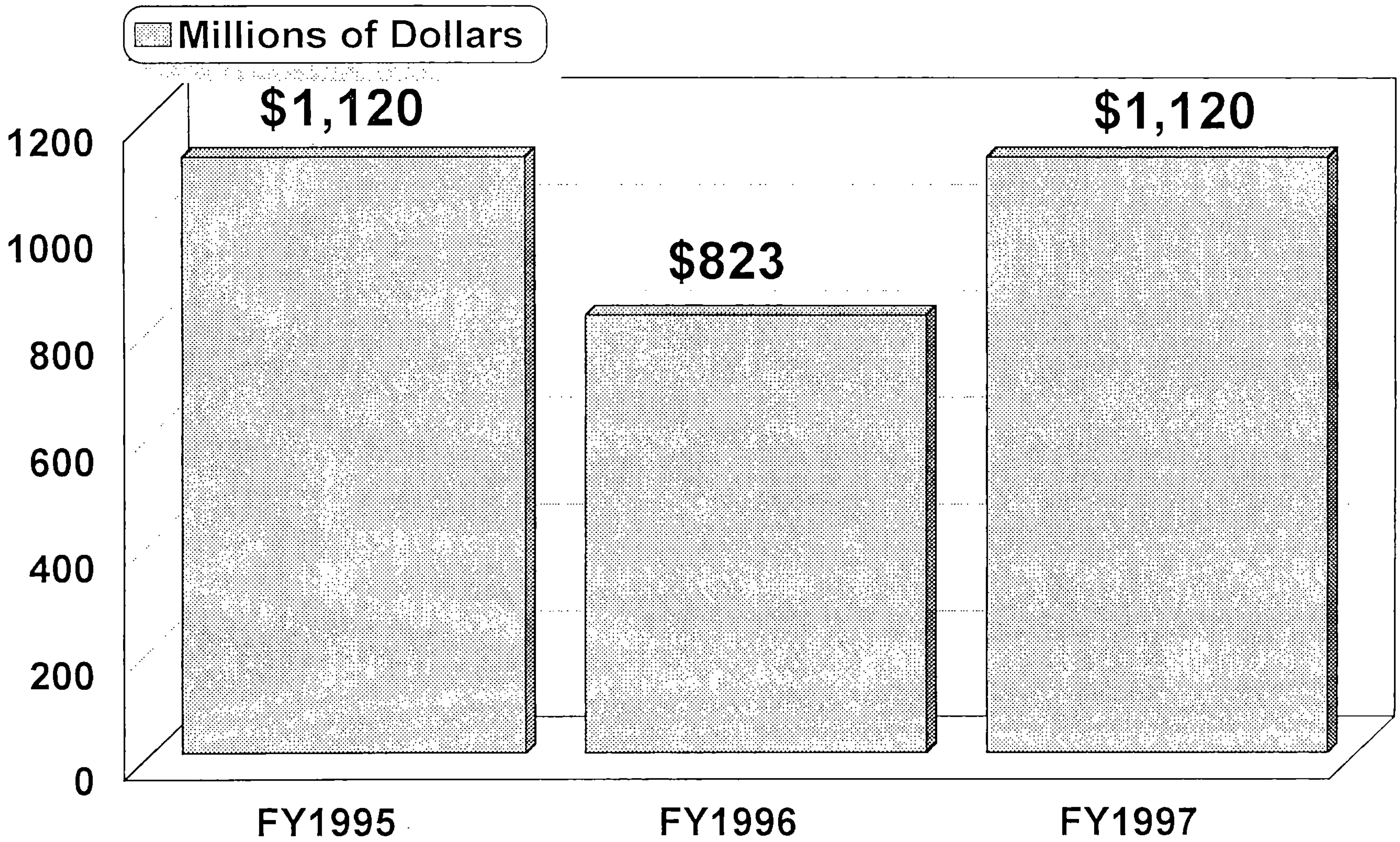
- Approximately 600,000 Homeless
- Women and Children: Fastest Growing Segment
- Dual-diagnosed Populations
- Need for Continuum of Care



Homeless Assistance Fund



Homeless Assistance Fund



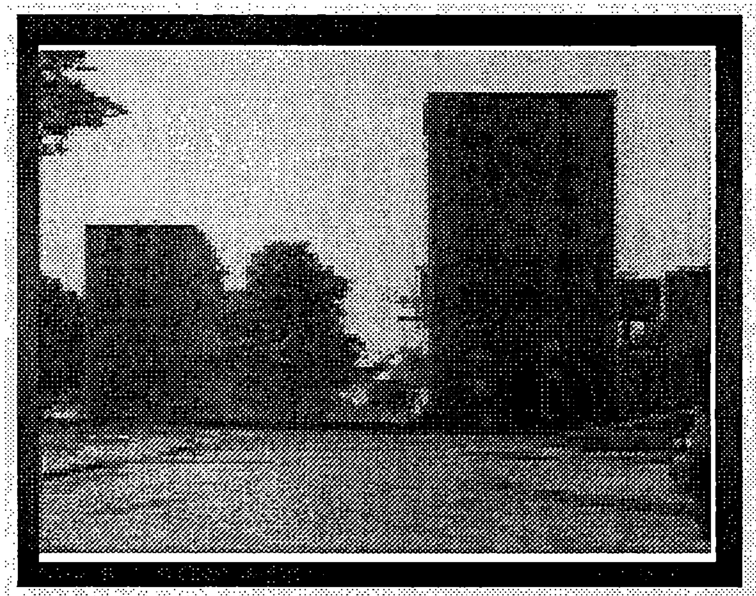
$297 Million Increase Over FY96

Transforming Affordable Housing

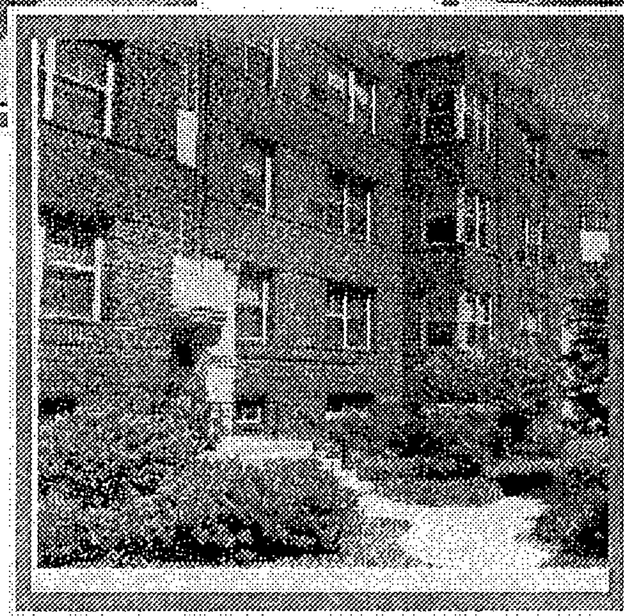
- Transforming Public Housing
- Transforming Section 8 & Older Subsidized Housing
- Expanding the Supply of Affordable Housing

Transforming Public Housing

Change Physical Environment







Changing Social Dynamics Through *Incentives*

- Reward working families
- Choices for exemplary residents
- Campus of Learners

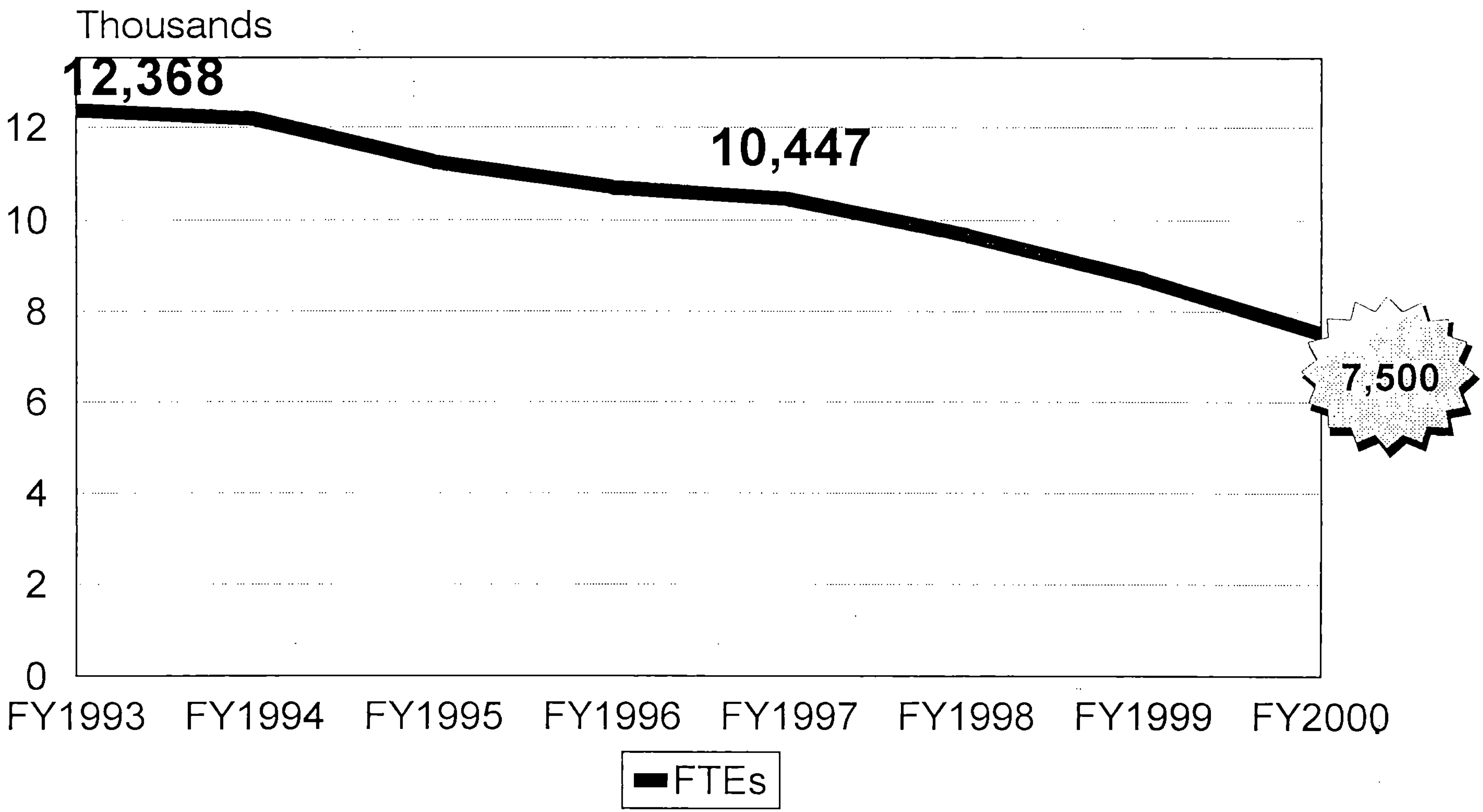
Changing Social Dynamics Through *Conditions*

- Screen out families with drug or criminal history
- "One strike and you're out"
- Operation Safe Home

Transforming Public Housing
(Budget Authority in Millions)

	FY1995	FY1996	FY1997	Difference
Operating Funding	$2,900	$2,800	$2,900	+ $100
Capital Funding	$2,885	$2,500	$3,000	+ $500
HOPE VI/VII	$500	$280	$650	+ $370
Drug Elimination Grants	$290	$290	$290	- - -

Full-Time Equivalent Positions



* Totals do not include Inspector General, OFHEO, and Working Capital Fund.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20410-0001

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COMMENTS: Attached is the Executive Summary (incremental voucher draft) of the FY 97 Budget

HUD: INCREMENTAL HOUSING UNITS

FY 1997 Budget

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PROGRAM	FY 1995	FY 1996	FY 1997	COMMENT
Rental Vouchers & Certificates (Incremental)	14,644	35,398	50,000	Includes: 41,150 vouchers & 8,850 project-based rental subsidies e.g., vouchers to relocate tenants from low-income projects not preserved.
Elderly & Disabled, New Construction & disbled rental vouchers	12,569	12,569	9,722	Includes: 6,750 Elderly New Const. grants; 1,562 Disabled New Const. grants & 1,410 Disabled rental vouchers (5-yr).
Indian Housing, New Construction	2,084	1,603	1,603	New Construction of Housing on Indian land.
Public Housing, New Construction	(264)	0	0	While PHAs could use capital funds to construct new public housing units, the budget does assumes all funds will be devoted to modernization.
Housing Opportunities for Persons With AIDS (HOPWA)	7,000	6,800	6,600	Includes new construction, rehab, and rental subsidies.
TOTAL INCREMENTAL UNITS	36,033	58,370	67,925	

Note: Units funded by enacted BA, adjusted by rescissons.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FY 1997 BUDGET

Executive Summary

In his State of the Union address, President Clinton observed that the Nation was in "an Age of Possibility," where "changes have opened vast new opportunities, but they also present stiff challenges." The President promised a plan to eliminate the budget deficit in seven years and a smaller Federal government that works directly with State and local leaders to build stronger families, better educational and job opportunities, and cleaner, safer streets.

The U.S. Department of Housing and Urban Development (HUD) has a key role to play in helping the Nation meet the challenges presented by the President. HUD makes American communities better places to live by supporting local efforts to expand affordable housing, home ownership, and job opportunities. Over the past three years, HUD has worked to shape a modern, efficient, accountable, and performance-driven agency that is fully responsive to local needs and supportive of efforts to help people improve their lives.

The FY 1997 HUD Budget furthers this reinvention by concentrating on four central objectives:

I. **Giving communities more control over Federal programs** by consolidating over 20 programs into three core funds that give flexibility in return for performance and reward results by offering bonus funding to high performers.

II. **Changing the dynamic of public and assisted housing** by tearing down the worst projects and replacing them with smaller-scale developments that anchor neighborhood renewal efforts; changing rules to reward people who work and promote self-sufficiency and responsibility; and by cracking down on crime in housing and mismanagement by owners and housing authorities.

III. **Enhancing homeownership opportunities for all Americans** by revamping the Federal Housing Administration (FHA), helping public housing residents and Section 8 recipients buy their own homes, and ensuring that homeownership is accessible to record numbers of people.

IV. **Transforming HUD into a "right-side-up, community-first" Cabinet agency** by creating single points of contact for all major localities, relocating Federal personnel to communities, and aggressively training HUD staff and its partners so they have the expertise to realize community visions.

Many of these efforts are underway -- in administrative actions already taken or ongoing and in pending legislation. The Department's proposed FY 1997 Budget will, therefore, advance an on-going process to strengthen partnerships among HUD, State and local governments, the private sector, and community-based organizations. The FY 1997 Budget will allow HUD and its partners to do a better job of fulfilling our vital mission of building healthy and strong communities. The ultimate result of these efforts will be a Department that meets the public's desires for a government that costs less, works better and is less intrusive in their lives.

FY 1997 HUD BUDGET OVERVIEW

Department of Housing and Urban Development
(Discretionary Dollars in Billions)

	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
Budget Authority	$20.1	$20.3	$21.7
Outlays	$31.8	$30.2	$33.2

In FY 1997, HUD requests $21.7 billion in budget authority, an almost $1.5 billion increase over the anticipated FY 1996 appropriation. HUD seeks to allocate this increased funding -- as well as other resources recycled within the Department -- for three distinct purposes.

First, the Department seeks to restore funding to those programs that HUD believes have been excessively cut during the FY 1995 rescissions and FY 1996 appropriations processes. HUD, therefore, seeks (relative to the anticipated FY 1996 appropriation) a $500 million increase in public housing capital funds; a $370 million increase in funding to demolish and replace public housing that is severely distressed; a $100 million increase in public housing operating funds, a nearly $300 million increase in homeless funding; and a $40 million increase in funding for Native American housing development.

Second, HUD seeks to further the objectives of program reinvention and consolidation. The Department again proposes to consolidate a myriad of separate categorical programs into streamlined performance-based funds that provide communities with greater flexibility in exchange for increased accountability. Thus, additional resources are sought to create bonus pools of funding within the Community Development Block Grant program, the HOME program, a new Homeless Assistance Fund and the Public Housing Capital Fund. These bonus pools will be used to reward those jurisdictions that perform well on core national requirements (e.g., low-income targeting) as well as locally designed performance benchmarks.

Finally, HUD seeks to address the growing demand for additional budget authority. Section 8 contracts provide affordable housing to hundreds of thousands of families. As the contracts run out of funds and require amendments or expire and require renewal, additional resources will be required. The FY 1997 Budget increases funding for Section 8 amendments alone by almost $200 million. Renewal of expiring Section 8 contracts is fully funded in FY 1998 and beyond.

1. *GIVING COMMUNITIES MORE CONTROL OVER FEDERAL PROGRAMS*

In 1995, Secretary Cisneros unveiled a historic reinvention of HUD's community development programs, designed to help communities develop their own strategies to face their toughest economic and social challenges. One year later, HUD's reinvention proposal is only more compelling. In FY 1997, HUD again proposes to consolidate over 20 separate programs into three flexible, performance-partnership funds -- the Community Development Block Grant (CDBG) Fund, the HOME Fund, and the Homeless Assistance Fund, as described below.

The intent of these proposals is to give communities -- those closest to the people -- the power to design and the resources to implement comprehensive strategies tailored to local needs. Localities and States will be given greater flexibility to administer Federal resources in exchange for setting and meeting national statutory objectives and locally established performance measures and benchmarks. Each performance fund will also have a bonus pool of funding that will be set at a level above and beyond the FY 1996 appropriations. HUD will administer these bonus pools as challenge grants: those States and localities judged to be performing well will be eligible to compete for additional bonus funds.

Funding for Major Community Development Programs
(Budget Authority in Millions)

Program	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
Community Development Block Grant Fund*	$4,600	$4,600	$4,900
The HOME Fund*	$1,400	$1,400	$1,550
Homeless Assistance Fund*	$1,120	$823	$1,120
Native American Housing	$200	$160	$200
Youthbuild**	[$40]	[$20]	[$20]
Housing Opportunities for People with AIDS	$171	$171	$171

*FY 1997 amounts include monies for bonus pools
**Funded from CDBG in FY 1997.

Community Development Block Grant Fund

For the past twenty years, CDBG has helped local jurisdictions rebuild and revitalize neighborhoods that benefit low and moderate income families. The program is a model of decentralization: allowing jurisdictions to choose from a wide-range of eligible activities while adhering to such fundamental national standards as income targeting and the affirmative furthering of fair housing.

In FY 1997, HUD requests a total of $4.9 billion for the performance-based Community Development Block Grant Fund. Grantees will use their formula funds ($4.6 billion) for the wide range of activities that are eligible under the current program, and HUD would add three new features:

- States and localities will set performance measures and benchmarks in their own Consolidated Plans to target community development funds. The performance measures would correspond to the goals communities set for themselves, not a "one size fits all" set of goals dictated by HUD.

- In FY 1997, HUD will set aside $100 million for a bonus pool. These funds will be available on a competitive basis to jurisdictions that meet their own goals (as well as minimum program requirements). These bonus funds may be used to help address brownfields, generate economic revitalization in distressed communities, or to link people living in distressed communities to jobs.

- In FY 1997, HUD will also set aside $200 million to help finance a second round of Empowerment Zones/Enterprise Communities to stimulate further private investment and economic opportunity in distressed urban and rural communities and to connect residents to available local jobs. The first round of Empowerment Zones/Enterprise Communities has generated comprehensive strategic plans in over 500 communities; leveraged substantial private sector investment; and stimulated innovative governance and performance-based agreements between the Federal government and local communities.

HOME Fund

The second performance-based fund will be the HOME Fund. The HOME Investment Partnerships program was created in 1990 to expand the supply of affordable housing through flexible public-private partnerships. Eligible activities include building or rehabilitating affordable housing, assisting first-time home buyers, providing supportive services and offering tenant-based rental assistance. In FY 1997, HUD requests $1.4 billion for the HOME program and $155 million for the HOME Fund Challenge Grant for Homeownership Zones. As with the CDBG Fund, managing HOME as a performance fund will include requiring recipients to set their own performance goals based upon the needs and priorities established in their Consolidated Plans.

Bonus funds would be made available on a competitive basis to create large-scale home ownership communities. This "Homeownership Zones" initiative is designed to reclaim abandoned neighborhoods, provide homeownership opportunities to hardworking low- and moderate-income families, and stimulate business creation and private investment. HUD would administer this bonus pool as a challenge grant, requiring localities to compete for funds by proposing creative, cost-effective homeownership strategies using a combination of their own resources, private capital, and Federal program incentives.

Homeless Assistance Fund

The Homeless Assistance Fund will consist of six separate McKinney homeless assistance programs -- Shelter Plus Care, Supportive Housing, Emergency Shelter Grants, Section 8 Single Room Occupancy, Rural Homeless Grants, and Safe Havens -- as well as the Innovative Homeless Initiatives demonstration program. The new Homeless Assistance Fund will be a single formula-driven, performance-based program. Communities will be permitted to choose from a broad menu of eligible activities and will be given the incentive to shape comprehensive, "continuum of care" strategies to address the needs of homeless individuals and families in their communities.

In FY 1997, HUD requests over $1 billion for the Homeless Assistance Fund and $110 million for the bonus pool. This would restore overall funding for homeless programs to the level appropriated in FY 1995. HUD strongly believes that maintaining a predictable, steady stream of Federal funding for homeless programs is essential if localities are to develop coordinated approaches to solving the complex problem of homelessness. Like CDBG and HOME Funds, States and localities will set their own performance measures in their Continuum of Care Strategies and Consolidated Plans. These and the performance measures will be developed by the community with the involvement of all stakeholders: non-profit providers, local government, business community, and program beneficiaries, the homeless and formerly homeless. The bonus pool will be distributed to superior performers to fund innovative homeless activities that meet particular national concerns, for example, activities that assist homeless persons with multiple diagnoses.

Native American and Other Community Development Programs

The Department will also continue to administer several categorical programs in addition to the three performance funds described above.

<u>Native Americans</u>. HUD continues to support expansion and further consolidation of its Native American programs. Too many Native Americans live in shocking conditions of extreme poverty and substandard housing. The unique character of their poverty and their remote locations defy solutions through traditional programs and therefore require special action. Thus, the Department:

- requests $200 million for its Indian Housing Development program, an increase of $40 million over the anticipated FY 1996 appropriation.

- will again request that 1.5 percent of HOME, CDBG, and Homeless Assistance be set aside for Native American communities to be distributed on a formula basis. Communities may use these funds for a broad range of activities.

- seeks funds to guarantee over $36 million in housing loans to individuals and Indian Housing Authorities. This program provides assistance to a population not well served by the private mortgage markets.

- continues to encourage the development of a Native American Finance Service Organization, originally proposed by the Administration in 1994. NAFSO would provide technical assistance to Native American communities that wish to create Native American lending institutions in order to provide primary mortgage lending as well as economic development lending.

Youthbuild. In FY 1997, HUD requests $20 million from CDBG funds for the Youthbuild program, the same level anticipated in FY 1996 appropriation. The program, created in 1992, uses affordable housing construction and rehabilitation to provide disadvantaged young adults with education and employment skills. The program includes both apprenticeships in construction work and academic and jobs skills training. Funds may also be used to design and implement eligible youth programs.

Housing Opportunities for People with AIDS. HUD requests $171 million again in FY 1997 for States and localities with large populations of people living with HIV/AIDS. These monies help communities develop long-term, comprehensive strategies for meeting the unique housing needs of people living with HIV/AIDS and their families. The majority of the funds are distributed by formula, and the balance awarded on a competitive basis for projects of national significance.

Assistance for Developing Communities. In FY 1997, HUD also would create a $50 million fund to assist developing communities that have been traditionally underserved. This fund would be authorized to provide grants to nonprofit entities and local units of government for housing development, infrastructure improvements, economic development, and supportive services. The funds would be targeted to developing communities such as farmworkers, colonias, and Native Americans and would be administered in conjunction with the Department of Agriculture.

II. *CHANGING THE DYNAMIC OF PUBLIC AND ASSISTED HOUSING*

Transforming Public Housing

Congress and the Administration are working closely together to advance the most profound changes to public housing in a generation. This collaborative effort focuses on three goals: replacing the most dilapidated, distressed developments with smaller-scale affordable housing; providing incentives to tenants to become self sufficient by rewarding work and connecting isolated residents to educational and employment opportunities; and placing conditions on public housing residency through tougher occupancy and eviction rules.

The FY 1997 Budget supports these broad goals and uses targeted programs to reinforce key initiatives. The Department reproposes consolidating numerous separate programs into two performance funds -- one to address public housing operating needs and the other to address public housing capital and management improvement needs. Strong performance measures will govern both. HUD will offer a series of regulatory and funding incentives to spur superior performance. HUD will also recommend retaining separate programs targeted to demolishing and replacing the distressed public housing inventory and reducing crime in public housing.

Transforming Public Housing
(Budget Authority in Millions)

Program	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
Operating Fund	$2,900	$2,800	$2,900
Capital Fund	$2,885	$2,500	$3,000
HOPE VI/VII	$500	$280	$650
Drug Elimination Grants	$290	$290	$290

Public Housing Operating Fund

In FY 1997, HUD requests $2.9 billion for the Public Housing Operating Fund, an increase of $100 million over the anticipated FY 1996 appropriation level. Assuming enactment of reform legislation in 1996, public housing agencies (PHAs) will be given the flexibility to attract and retain a broader range of families. PHAs will henceforth be allowed to set their own preference rules for admission to public housing; many may choose to encourage working families to move into existing developments. PHAs will also be given the flexibility to set ceiling rents (to encourage working families to stay in public housing as their incomes grow) and make other adjustments necessary to make work pay for families now dependent on public assistance.

Public Housing Capital Fund

The FY 1997 Budget outlines the consolidation of several programs into one Capital Fund by FY 1998. This Capital Fund, originally proposed in FY 1996, will be modeled largely after the current Public Housing Modernization program. PHAs will be permitted to use capital funding to upgrade their viable inventory. Funds will also be used to replace obsolete housing, support management improvements, address troubled housing authorities and expand linkages between public housing, local schools, and other educational institutions.

In FY 1997, HUD requests $3 billion for the Capital Fund, an increase of $500 million over the anticipated FY 1996 appropriations bill. HUD is concerned by the level of funding reductions contained first in the FY 1995 rescissions law and augmented in the pending FY 1996 appropriations bill. The flexibility contemplated by legislation under consideration cannot erase decades of deferred maintenance and inadequate modernization work.

As in the community development funds, HUD intends to set-aside the additional $500 million for a bonus pool. These funds will be awarded exclusively to public housing agencies that are deemed to be high performers under the existing Public Housing Management Assessment Program (PHMAP) and that demonstrate substantial efforts to link public housing residents to educational and employment opportunities. Bonuses will be distributed according to both the need for capital assistance and the level of performance.

Distressed Public Housing (HOPE VI/VII)

Approximately 100,000 units of public housing continue to be severely distressed, requiring over $50,000 each to meet capital needs. The Administration is moving as quickly as possible to demolish high-cost units. The HOPE VI/VII programs provide highly flexible resources to demolish dilapidated units and fund innovative replacement efforts, including tenant-based assistance. In many communities, the HOPE VI/VII programs are changing the urban landscape and spurring economic redevelopment. Some observers are calling this new form of public housing the "New Urbanism." If properly implemented, it has the potential of not only building sustainable affordable housing developments but of revitalizing whole neighborhoods and communities.

In FY 1997, the Department requests $650 million for HOPE VII. Half of the funding will be made available for reconstruction and redevelopment activities; the remaining funds will pay for actual demolition and provide rental vouchers to help residents relocate to housing in the private market.

Drug Elimination Grants

Since 1988, the public housing drug elimination program has helped public housing agencies combat criminal activity and drug trafficking in public housing through a variety of means. In FY 1997, HUD requests $290 million for the program, the same level anticipated under the FY 1996 appropriations bill. HUD recommends doubling the set-aside for Operation Safe Home -- its collaborative anti-gang effort with the Federal Bureau of Investigations, the Bureau of Alcohol, Tobacco, and Firearms, and other Federal and local law enforcement agencies -- to $10 million. This effort has already resulted in thousands of arrests of gang members and confiscation of their guns and assault weapons. Additional funding will enable Federal and local officials to expand resources for undercover operations, witness relocation, and community policing efforts in public housing.

Transforming Section 8 and the Older Subsidized Inventory

A Re-Commitment to Incremental Section 8 Certificates

The primary source of severe housing problems in the nation is lagging household incomes and high housing costs. In 1993, for example, 5.3 million households either paid more than 50 percent of their income for rent or lived in substandard housing. Four out of five of these households lived in housing that is both adequate and uncrowded; affordability was their only housing problem.

Since the early 1970's, the tenant-based Section 8 rental assistance program -- "certificates" and "vouchers" -- has been HUD's most effective and efficient tool for addressing this housing affordability problem. From 1974-1995, despite serious differences in philosophy, successive Congresses and Administrations agreed each fiscal year to assist additional low-income households with new Section 8 certificates. There are currently 1.5 million households receiving Section 8 certificates.

The FY 1995 rescissions law and the anticipated FY 1996 appropriations bill have broken with this 20-year commitment by ending all incremental Section 8 rental assistance. Instead, these appropriations measures have only funded "non-incremental" uses of Section 8 such as relocation of residents from public housing projects slated for demolition.

In FY 1997, HUD requests funding for 50,000 housing certificates to be used principally as part of a larger welfare-to-work initiative. Only public housing agencies that have established close working relationships with State welfare agencies and local and regional job training entities will be eligible. These certificates will make it possible for assisted families to obtain affordable housing in residential areas of their choosing anywhere in the metropolitan housing market that may be closer to job opportunities.

HUD will also repropose consolidating the existing voucher and certificate programs into one Housing Certificate Fund. Program consolidation as well as the relaxation of various programs rules will give public housing agencies greater administrative flexibility. To enhance accountability, HUD will implement a performance measurement system in 1996 – the Section 8 Management Assessment Program ("SEMAP") -- that mirrors the one established for public housing. HUD will take aggressive action against public housing agencies that consistently perform poorly on fundamental management indicators.

Transforming Section 8 and Assisted Housing
(Budget Authority in Millions)

Program	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
Section 8 Renewals	$2,159	$4,351	$4,260
Property Disposition	$555	$261	---
Preservation	$175	$624	---
Section 8 Amendments	$710	$610	$800

<u>Renewal of Expiring Section 8 Contracts</u>

In FY 1997, HUD requests $4.26 billion for the renewal of expiring Section 8 contracts. HUD supports the notion of moving to one-year renewal terms for all Section 8 contracts. Yet we are concerned -- particularly in the current environment of government shutdowns and short-term continuing resolutions -- that sufficient funding be provided to ensure the timely renewal of expiring contracts to avoid tenant displacement.

We, therefore, propose to fund the renewal needs of those contracts expiring between October, 1996 and December, 1997 on a fifteen-month fiscal period. This is an anomaly for FY 1997 only. Subsequent years will fund contracts expiring on a twelve-month <u>calendar</u> basis. This plan will guarantee that funds would be available at the beginning of the fiscal year when a number of contracts expire. When an appropriation is not enacted at the start of the fiscal year, a real threat of some assisted tenants being evicted from their homes exists. Starting in FY 1998, the appropriation will again cover a twelve-month period, but on a calendar-year basis.

HUD believes that shorter contract terms will improve the ability of policymakers to manage the contract renewal process by having more precise budget estimates and more timely information. One-year terms will not affect the delivery of housing assistance from the tenant's perspective. Tenants typically sign one-year leases and are not aware of the remaining time on their particular subsidy contracts.

Shorter terms are also consistent with the move towards tenant-based rental assistance, where recipients are given the choice of where to live rather than being directed to one particular unit. In the past, longer terms -- five years, fifteen years -- were necessary for financing project-based developments. As the Department moves to rely on tenant-based assistance, this need for multi-year terms has been obviated.

Restructuring Federal Housing Administration Multifamily Programs

Multifamily Portfolio Reengineering

The FY 1997 HUD Budget again attempts to address long-standing problems in the Federal Housing Administration (FHA) multifamily portfolio of properties that have FHA mortgage insurance and that also receive rental subsidies making units affordable to low-income residents. This portfolio provides housing to nearly 800,000 low-income households in 8,500 privately owned, HUD-subsidized projects. Many of these properties are over-leveraged and the Federal government is paying excessive subsidies to prevent mortgages from going into default.

The FY 1996 HUD Budget proposed a comprehensive strategy to "mark-to-market" the debt on HUD's older subsidized inventory -- which would have produced savings, enhanced housing quality, and allowed formerly subsidized properties to compete in the marketplace for renters holding portable certificates. Congress has decided to take some helpful preliminary steps in FY 1996, leaving comprehensive reform to this legislative session.

After lengthy consultations with affected constituencies, HUD has agreed to revise its FY 1996 "mark-to-market" proposal in a number of significant ways. HUD has agreed to modify its proposal to protect existing tenants through the continued provision of rental subsidies by letting localities decide whether such subsidies should be tenant-based or project-based. HUD has also agreed to focus its restructuring efforts in FY 1997 primarily upon projects whose contracts expire and whose current rents are above market levels.

This restructuring will generate discretionary savings: many properties currently receive subsidies that are in excess of market rents. Adjusting rents to market levels will in many cases reduce project income and necessitate the writing down of property mortgages to reflect their true economic value. This process will result in payment of mandatory claims from the FHA Fund. HUD intends to use third-party partners to produce efficient and proactive mortgage restructuring, while also meeting the public purposes of protecting tenants and communities. HUD will not abrogate existing contracts with owners, but will seek the authority for voluntary, proactive debt restructuring.

Property Disposition

An expanding inventory of HUD-owned multifamily properties was one of the most difficult problems inherited by the Clinton Administration in 1993. Congress and the Administration have worked together to manage the inventory better -- through increasing resources for property disposition, through program reforms in the Multifamily Property Disposition Reform Act of 1994, and through greater flexibility anticipated in the FY 1996 appropriation bill. The result of this collective effort is dramatic: the HUD-owned multifamily inventory currently stands at its lowest level in seven years. Since 1993, the inventory has been reduced from 200 properties to 80.

In FY 1997, HUD again requests no specific funding for this activity -- consistent with its budget requests for the past two fiscal years. Instead, the Department proposes to:

- provide funding from the FHA Fund for the necessary rehabilitation of properties (such authority is currently enacted for FY 1996),
- protect existing eligible tenants from displacement by making available 5,000 Section 8 vouchers and certificates from the Housing Certificate Fund, and
- promote, where appropriate, the long-term affordability of properties through innovative financing tools and the use of negotiated sales to nonprofit organizations.

Preservation

The Department's FY 1997 Budget request for the funding of preservation-eligible programs reflects Congressional intent, expressed in the FY 1996 VA/HUD Conference Report, to eliminate this program by September 30, 1996. Since its inception, 61,000 units of housing built in the 1960s and 1970s with HUD-insured mortgages have been preserved as affordable housing stock. HUD made changes in the excessively costly and complicated program, which was severely criticized by the General Accounting Office, the Congressional Budget Office, HUD's Inspector General, and Congress in 1995.

For FY 1997, HUD will no longer provide preservation funding, but will allow owners to prepay their mortgages and will provide tenant-based assistance under Section 8 to existing tenants to protect them from displacement. HUD requests 8,200 Section 8 vouchers and certificates to be made available to tenants, including those who were not formerly assisted under Section 8 but whose rents after prepayment would be unaffordable. These vouchers will have enhanced flexibilities -- enabling tenants to stay in place even if rents rise above Fair Market Rents.

Amendments to Section 8 Contracts

In FY 1997, HUD requests $800 million for amendments to existing Section 8 contracts, an increase of $300 million over the anticipated FY 1996 appropriation. Like contract renewals, the cost of Section 8 amendments is driven by demand and bears greater similarity to traditional mandatory expenditures than to the typical HUD programs. Failure to fund these needs could result in substantial tenant displacement and abrogation of contracts between the Federal government and private landlords.

Expanding the Supply of Affordable Housing

The critical shortage of affordable rental housing in many communities requires a sustained Federal response. HUD and its myriad partners are pioneering a new model of affordable housing development and financing that builds upon coherent local strategies, relies upon responsible institutions, and embraces market discipline. The Federal government brings to the table a number of critical tools to support affordable housing-- FHA multifamily mortgage insurance, the low-income housing tax credit, capital subsidies under HOME, housing programs of the Departments of Veterans Affairs and Agriculture, HUD programs for the elderly and persons with disabilities, and tenant-based rental assistance. In combination or alone, these programs are producing a more durable, more responsive generation of affordable housing developments.

Expanding the Supply of Affordable Housing
(Budget Authority in Millions)

Program	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
FHA: Multifamily Credit Subsidy	$189	$85	$85
Housing for Elderly & Disabled	$1,176	$1,013	$769
Lead-based Paint Abatement	$15	$65	$60

FHA/Multifamily Credit Subsidy

FHA fills a unique niche in the multifamily housing industry. It has no private or public sector equivalent. FHA promotes the development of affordable housing for families, elderly and special needs multifamily housing, and health-care facilities where the private sector is unable or unwilling to provide the required resources.

Every year FHA insures billions of dollars in multifamily mortgages, producing and/or preserving tens of thousands of affordable apartments. According to a recent analysis by the Mortgage Bankers Association, FHA's $26.6 billion dollar volume of multifamily activity (measured by initial endorsements) from 1985 to 1994 was roughly equal to the cash purchase programs of Fannie Mae and Freddie Mac combined.

In FY 1997, HUD requests $85 million in credit subsidy funds to support FHA's multifamily activity, the same level contained in the anticipated FY 1996 appropriation. The budget will also repropose administrative language that allows the Department to offset the costs of new multifamily insurance with revenue generated by FHA from sales of mortgages in HUD's inventory, providing FHA with at least an additional $75 million in credit subsidy. This "netting" authority will enable FHA to sustain current levels of production -- an estimated 125,000 units and $4.8 billion of mortgage financing -- at a time of shrinking appropriated funds.

Housing for the Elderly and Persons with Disabilities

The FY 1997 Budget requests $769 million for assistance to the elderly and persons with disabilities, a reduction of $244 million from the anticipated FY 1996 appropriation.

With respect to the Section 202 program, the Department's mark would support capital grants to eligible, private non-profit organizations to finance housing for elderly persons. The program would be modified, however, to emphasize "mixed-use, mixed-income and mixed-financing" and to link elderly developments closer to existing and proposed supportive service funding streams at the State level.

With respect to the Section 811 program, the Department will propose to set aside at least 25 percent of these funds for tenant-based assistance to increase program flexibility. Such a change will further the Administration's objective of "mainstreaming" people with disabilities in the housing market.

Lead-Based Paint Abatement

In FY 1997, HUD requests $60 million for its lead grant program, a reduction of $5 million from the anticipated FY 1996 appropriation. This program is serving as the only catalyst to States and localities to build the infrastructure (e.g. certification and training of lead abatement technicians) necessary to address childhood lead poisoning in private and assisted housing on a significant scale. In the past three years, lead-grant activity has resulted in encouraging State legislation and expanding training and certification of inspectors into 21 states. Only two states had such capacity when HUD began its efforts.

Ultimately, lead assessment and reduction activities will become the norm in all HUD formula programs. Yet the infrastructure needs to be built first, and a separate, categorical program is the most efficient way to do that. HUD plans to retain a separate program until FY 1998 and then consolidate it into the HOME program.

III. ENHANCING HOMEOWNERSHIP OPPORTUNITIES FOR ALL AMERICANS

Homeownership -- long the American dream -- is the ultimate step in the ladder of housing opportunity for our citizens. Increasing homeownership can be a tool to reclaim abandoned neighborhoods and stimulate business creation and private investment. Yet homeownership has become a dream denied or deferred for too many, particularly for young families, lower-income families, and minorities.

Responding to a challenge from President Clinton, HUD has forged a coalition of more than 50 public and private entities in the homeownership industry. This coalition, the National Partners in Homeownership, created a plan to expand homeownership nationally by eight million by the year 2000. The Partners' National Homeownership Strategy, a model for public-private partnership, does not create a new government program or ask for new funds from Congress. Through the Strategy, the Federal government builds collaborative relationships with lenders, builders, and real estate professionals; with nonprofit organizations that work to expand homeownership; and with State and local agencies that help shape the availability and cost of homes within their local housing markets.

HUD is contributing to the National Homeownership Strategy in numerous ways by: making FHA and Ginnie Mae more efficient and accessible; increasing homeownership counseling efforts; monitoring the affordable housing activities of Fannie Mae and Freddie Mac; enforcing the Fair Housing Act; and giving public housing residents and Section 8 recipients greater opportunities to buy their own homes.

Funds for Increasing Homeownership
(In Millions)

Program	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
FHA Commitment Authority	$100,000	$110,000	$110,00
GNMA Commitment Authority	$142,000	$110,000	$110,000
Housing Counseling	$12	[$12]	[$15]

FHA Mortgage Insurance

Throughout its history, FHA has made homeownership possible for families locked out of the conventional market: first-time homebuyers, inner-city residents, minorities and low- and moderate-income families. HUD's FY 1997 budget and 1996 administrative and legislative agenda is designed to help FHA perform this role in today's rapidly changing world of market innovations, technological advances and sophisticated financial institutions

In FY 1997, HUD requests $110 billion in commitment authority for the Mutual Mortgage Insurance Fund, the same level authorized in the 1996 Extender Bill and anticipated in the FY 1996 appropriation.

FHA's performance will be enhanced by several administrative actions and legislative proposals. FHA is working to forge strategic risk-sharing alliances with public and private partners that will expand its ability to deliver products to more underserved borrowers. FHA will also ask Congress to streamline overly complex downpayment calculations and authorize greater product flexibility.

On the organizational side, FHA is working to concentrate the processing of single family mortgage insurance in "back-office" centers. One such center opened last year in Denver and has already cut processing time from six weeks to two days. This year, the Denver Center will be expanded and two more centers will be created, further increasing FHA's ability to serve homebuyers and lenders efficiently. FHA is also pioneering the use of technology to enhance its ability to monitor risk as well as enable the agency to lower costs, communicate better with business partners and share information.

The end result of these administrative and legislative actions will be a more efficient and market-responsive FHA that can more effectively help low- and moderate-income families achieve their homeownership aspirations.

Ginnie Mae

Ginnie Mae has supported affordable home ownership for more than a quarter of a century through its mortgage-backed securities program. Ginnie Mae serves as the primary vehicle for securitizing both FHA-insured and Department of Veterans Affairs guaranteed home, multifamily and manufactured home loans. In addition, Ginnie Mae is one of the primary sources of capital for the Department of Agriculture's Rural Housing Service guaranteed loans. In FY 1997, HUD requests $110 billion in commitment authority for Ginnie Mae, the same level authorized in the 1996 Extender Bill and anticipated in the FY 1996 appropriation.

Housing Counseling

The National Homeownership Strategy puts enhancing homeownership awareness, education and counseling among its highest priorities. Experts among America's housing lenders emphasize the importance of homeownership counseling as a major factor in helping low- and moderate-income purchasers decide whether and how to buy a home. HUD and its industry and community partners have also found that pre-foreclosure counseling helps families keep their homes when they run into financial difficulties. In FY 1997, HUD requests $15 million of HOME funds to support homeownership counseling programs through national and regional efforts, an increase of $3 million from the anticipated FY 1996 appropriation. Working through national and regional intermediaries, HUD has used this program in recent years to provide both pre-purchase and pre-foreclosure counseling. This program is even more important given the recent growth in homeownership among lower-income families.

Ensuring Fair Housing

Funding for Fair Housing
(Budget Authority in Millions)

Program	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
Fair Housing Incentives and Assistance Programs	$33	$30	$33

Since 1968, the Department has operated under an obligation to affirmatively further fair housing through all of its programs and activities. The commitment to fair housing will continue to infuse the Department's actions and operations. Fair housing efforts are inextricably linked to our goals of empowering communities, demolishing and replacing distressed public housing, using Section 8 rental assistance as part of a successful welfare-to-work strategy, and expanding rental and homeownership opportunities in the private market. We intend to maintain strong support for fair housing enforcement entities, both governmental and nonprofit, as well as counseling efforts in Section 8 and other programs.

The FY 1997 Budget requests $33 million, an increase over FY 1996 levels, to aid State or local agency charged with administering fair housing laws and ordinances in line with Federal statutes. These agencies process discrimination complaints and enforce fair housing laws through conciliation, administrative enforcement or judicial proceedings. Federal funds have encouraged these agencies to develop equivalent fair housing laws and accept referrals from the Department.

IV. CREATING A COMMUNITY-FIRST, RIGHT-SIDE-UP HUD

Departmental Funding
(Budget Authority in Millions)

	FY 1995 Actual	FY 1996 Estimate	FY 1997 Request
Total, Salaries & Expenses	$961	$963	$988
Training expenses	$10.3	$13.8	$28.8
Relocation expenses	$9.6	$8	$25
Infrastructure	$117.9	$117.1	$150.2

The dramatic and exciting program reforms described in this document can only be fully implemented if HUD itself changes. Some of that transformation has already occurred. In the past three years, HUD has become a leaner, more focused operation -- administering fewer and fewer programs and downsizing from over 13,290 employees in 1993 to under 11,370 currently.

We now propose to go further, advocating the creation of a "right-side-up" Cabinet department that is organized, staffed and empowered to respond to locally driven priorities rather than Federal dictates. The FY 1997 Budget plays a central role in our reinvention plans, requesting increased funds for such critical areas as training, relocation, and technology needs. The FY 1997 Budget specifically envisions a new smaller, decentralized work force, highly trained to respond to local priorities. Almost $30 million is allocated to allow selected HUD personnel to receive intensive training to convert them from administrators processing paperwork to community-oriented experts who help communities optimize the necessary layering of local, State, Federal and private resources.

The FY 1997 Budget also envisions a downsizing of the headquarters staff and an upgrading of HUD's field offices. To this end, HUD's Budget seeks an additional $17 million to be used for relocation expenses. HUD proposes a new structure that literally inverts the organizational chart, putting Federal representatives who meet the public on the highest level and arraying every other function in support of front-line staff. To this end, field staff will be given maximum flexibility and authority to work with communities to address their needs and problems. In keeping with this determination to make "customer service" a priority, the Department's field offices are currently being designated as HUD Service Centers.

Finally, the FY 1997 Budget envisions an agency that will more heavily rely on the latest computer technology to communicate with partners, enhance local strategic planning, expedite loan and grant processing and monitor recipients and lenders. Continued investments in modern server technology, expanded telecommunications, and desktop workstations are critical to reinventing HUD; thus $150 million is allocated for infrastructure needs of the Department.

IMPLICATIONS OF SEVEN-YEAR BALANCED BUDGET

The President's FY 1997 Budget puts forth a plan to eliminate the budget deficit by the year 2002. To achieve this end, the Budget saves nearly $300 billion by cutting discretionary programs steadily from FY 1998 through FY 2000.

The President has decided to protect a set of investments in education and training, children's programs, the environment and other domestic areas. Protected HUD investments will include public housing operating funds, the Homeless Assistance Fund, and the renewals of expiring Section 8 contracts. The FY 1997 Budget assumes that remaining programs will be subject to governmentwide, across-the-board cuts. The Administration recognizes that it is not realistic to make program-by-program decisions today for the year 2000. Annual budgets will require us to make these detailed policy decisions on the basis of assessments of national needs at the appropriate time.

The FY 1997 HUD Budget includes a number of proposals that will generate significant outlay savings during the seven-year period. These include eliminating Federal preferences, restructuring the multifamily portfolio, changing the annual adjustment factors, reducing fair market rents and reducing Section 8 administrative fees. Many of these reforms are contained in the anticipated FY 1996 appropriations bill; the FY 1997 Budget proposes to make these reforms permanent in subsequent legislation.

CONCLUSION

HUD's proposed FY 1997 Budget would advance the reinvention agenda sought by this Administration over the past three years. The agency will work on several tracks over the course of the next year to make the initiatives contained in this budget a living reality.

The Department will transmit to Congress a series of legislative initiatives in the community empowerment, Native American and FHA areas. The Department will also work to implement existing administrative priorities -- empowerment zones, public housing transformation, National Homeownership Strategy, homeless strategies -- with vigor. Finally, the Department will institute management reform and organizational restructuring to the maximum extent permitted by law.

In summary, HUD hopes to demonstrate that the Federal government can, in true partnership with other levels of government and the private sector, effectively and efficiently make a difference in the lives of people and communities.

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PRESIDENT RELEASES FY 97 BUDGET

On March 19, President Clinton unveiled his FY 97 budget proposal...It calls for massive cuts in discretionary spending and over seven years fully four fifths of the same cuts that the Republican majority in Congress has been proposing...Overall, President Clinton proposes to cut discretionary spending by $297 billion between now and FY 2002 (Congress has proposed $349 billion in cuts).

The President proposes that HUD receive $21.7 billion in new budget authority for FY 97, with $33.2 billion projected in outlays...This compares to FY 95 budget authority of $20.1 billion...However, in 1994 Congress passed (and the President signed) an appropriations bill providing HUD with $25.7 billion for FY 95, but $5.6 billion of that was rescinded by the Congress elected in November.

In his FY 97 budget, the President has again proposed consolidating several existing public housing programs into formula-based block grants...The Clinton Administration proposes that $2.9 billion be appropriated in FY 97 to cover block grants for public housing operating expenses, with $3 billion appropriated for block grants to meet capital needs.

The Administration has also requested $4.9 billion for the Community Development Block Grant program, which breaks down into level funding of $4.6 billion for the regular program and $300 million for bonus awards to jurisdictions that meet their community development goals, and special awards for empowerment zones and enterprise communities...$1.55 billion was requested for the HOME Investment Partnerships program. $1.4 billion for the regular program (level funding) and $150 million for bonus awards to jurisdictions that meet certain performance goals...The President has also proposed merging several homeless assistance programs into one fund that would receive $1.1 billion in FY 97...Subsidized housing for the elderly and disabled would receive $769 million in FY 97 under the President's proposal.

The Administration is proposing that the Section 8 rental assistance programs be consolidated into one "Housing Certificate Fund" and that $290 million be appropriated to fund 50,000 incremental units...$4.3 billion was recommended to finance the renewal of expiring, mostly tenant-based, Section 8 assistance, with $800 million sought to cover the costs of expected amendments to existing Section 8 contracts.

The President's budget reaffirms his Administration's interest in going forward with its plans to restructure the portfolio of FHA-insured multifamily housing...According to Administration budget documents, "HUD will not abrogate existing contracts with owners, but will seek the authority for voluntary, proactive debt restructuring"...Authority to undertake a demonstration portfolio restructuring program is eagerly awaited by HUD officials, and such authority is in the pending bill to provide HUD with funds for the remainder of the current fiscal year...Many in the housing community are also eagerly awaiting a discussion draft expected from the Senate Banking Committee.

HUD 1997 Budget Highlights

Overview

Most HUD programs are funded at the FY 1996 level or above. However, 1996-1997 changes in BA and outlays give a distorted picture because of one-time items.

- Discretionary BA increases by $1.4 billion, from $20.3 billion to $21.7 billion. This BA change reflects a $1.4 billion drop in FY 1997 discretionary receipts (mainly a $1.066 billion one-time discounted present value of FHA assignment reforms).

- A $3 billion increase in outlays, from $30.2 to $33.2 billion, partly results from two one-time items: (1) only 11 months of rental subsidies will by paid in 1996 because 13 months were paid in 1995 to insure against disruption from a possible government shutdown on Oct. 1, 1995; and (2) the same drop in receipts as discussed under BA (FHA assignment reforms).

- Over 20 programs are consolidated into 3 performance funds: for Community Development (CDBG), HOME, and the homeless. New bonus funds for these 3 and for public housing will reward high-performing jurisdictions. HUD will assist an additional 68,000 low-income families with severe housing needs: 50,000 incremental Housing Certificates; and 18,000 in projects constructed for persons with special needs (9,700 elderly/disabled, 1,600 for Indians, and 6,400 for persons with AIDS).

- The budget also proposes Portfolio Reengineering (Mark-to-Market) reforms to help restructure high-cost and troubled FHA-insured subsidized multifamily housing projects.

- HUD will change the dynamic of assisted and public housing by getting tougher with poor management and crime, tearing down the worst projects, and changing rules to promote work and self-sufficiency. Some projects will be rebuilt as neighborhood anchors linked to education and work, others will be replaced by portable subsidies.

- The Department will transform itself into a "right-side-up, community-first" agency by empowering field staff and relocating people from Washington to the field. Single points of contact will be trained and assigned to assist all major localities in cutting through red tape and coordinating across programs. FHA's mortgage operations will be reinvented as a "performance-based organization" with additional flexibility and incentives to operate in a business-like way.

Major Programs

- PH Operating Fund. The budget funds public housing operating assistance at $2,900 million in 1997, the same as the 1995 enacted level and $100 million above the 1996 VA/HUD Conference level (vetoed). These funds pay operating, maintenance, social services, and security costs for Public Housing Authorities (PHAs) and Indian Housing Authorities (IHAs).

- PH Capital Fund. The President proposes to consolidate public housing Modernization, Indian Housing Development, technical assistance, and other programs into a Public Housing Capital Fund. This Fund would address the capital needs of Public and Indian Housing. For 1997, the President proposes $2,700 million in BA, including: $2,447 million for Modernization to address accruing and backlogged capital needs; $200 million for Indian Development; and $53 million for Support Services. Another $500 million is provided for a PH Capital Bonus Fund to be awarded by formula to high-performing PHAs who also initiate Campus of Learners programs or other efforts to link public housing residents with education and employment opportunities.

- Community Development Block Grant (CDBG) Fund. The budget provides $4,600 million for the CDBG Fund in 1997 -- same as the 1995 enacted and 1996 Conference levels. CDBG would operate as a performance fund starting in 1997. Grantees will continue to use their formula funds for the present wide range of activities. States and localities will use performance measures and benchmarks consistent with the national goals of the program, but can base these measures on the needs and priorities they establish in their own Consolidated Plans. High-performing jurisdictions will qualify to compete for CDBG/Economic Development Bonus Funds, which can be used to finance efforts that either generate economic revitalization in distressed communities or link people in distressed communities with jobs. In 1997, $200 million of the $300 million bonus pool will help support a new round of Empowerment Zones.

- HOME Fund. The budget provides $1,400 million for the HOME Fund in 1997 -- the same as the 1995 enacted and 1996 Conference levels. This program provides flexible funding to States and local governments for a wide range of housing activities based on local needs. HOME funds used for construction and rehabilitation increase the supply of low-income housing. In addition, high-performing jurisdictions may compete for a HOME Fund Challenge Grant to develop homeownership opportunities in targeted areas.

- Homeless Assistance Fund. For 1997, the President proposes $1,010 million in BA for base program assistance (emergency shelters, temporary housing, transitional housing and supportive services) funding, plus a competitive challenge/performance grant of $110 million, for a total proposed level of $1,120 million. Funding will be awarded mostly through competition ($115 million will be distributed through the Emergency Shelter Grants formula) to grantees that have developed a "continuum of care" strategy that has non-profits, providers, and local government working together to provide an assistance system to get the homeless back to self-sufficiency. Funding for assistance programs has increased from $572 million in 1993 to a post-deferral level of $823 million in 1995 ($297 million deferral from an enacted level of $1,120 million). FY 1996 BA also is at the post-deferral 1995 level.

- Housing Certificates/Incremental vouchers. $300 million is requested for 50,000 incremental Certificates (portable, one-year term). While HUD currently provides housing subsidies (including public housing) to 5 million low-income households, another 5.3 million families and elderly very-low-income renters have severe housing problems (paying rent exceeding 50 percent of income or occupying severely substandard units). Despite increments of Federal housing assistance, this number has increased by 1.5 million in 15 years and by 400,000 from 1991 to 1993 alone. The additional assistance will help 50,000 of these households beginning in 1997. About 15,000 of these subsidies will protect people affected by conversion of older projects to market rentals. The remainder will be used for a demonstration of how tenant-based assistance can support State welfare reform initiatives; certificates will be awarded to collaboratives of a state welfare agency, PHA, and regional counseling organization.

- Housing for Special Populations: Elderly and Disabled. This program provides grants to construct projects for these populations and rent subsidies to support their low-income tenants. A portion of funds for the disabled also can be used for portable vouchers. The request funds 6,800 units for elderly, 1,500 newly constructed units for disabled, and 1,400 vouchers for the disabled.

- Renewal of Expiring Section 8 contracts. $4.3 billion is requested to renew all 834,000 expiring rental contracts for a one-year term. While BA remains almost constant between FY 1996 and 1997, the funding term for these contracts changes from 2-years in 1996 to 1-year in 1997. Hence, many more contracts are renewed in 1997 -- 834,000 in 1997 versus 428,000 in 1996. (These expiring multi-year contracts, with terms from 2-20 years, have been fully funded by Congress since they first began to expire in 1990. If not funded, low-income tenants would lose their rental subsidy, with many being evicted, and many FHA-insured low-income projects defaulting. Congress has reduced the funding term of these contracts for several years to meet other BA needs, from 5-year terms in FY 1993, to 4-year terms in 1994, 3-year terms in 1995, and 2-year terms in 1996. The one-year term proposed in the 1997 budget will culminate that trend.)

- Annual Contributions. $900 million is requested, including $800 million to amend existing rental contracts in order to complete the full funding term and $60 million for grants to support lead-based paint abatement.

- Fair Housing. The $33 million request provides funding to state and local fair housing enforcement agencies to help offset the costs of case processing associated with enforcing fair housing laws and strengthens the Department's enforcement of the Fair Housing Act by funding various enforcement, compliance, education, and outreach activities.

ISSUES LIKELY TO BE RAISED BY COMMITTEE MEMBERS DURING TESTIMONY:

- **Q. Why add incremental vouchers to aid more households when that will exacerbate the outlay problem in future years?** **A.** It is imperative to address the increase in this need by assisting more low-income households who must use over half of their income for rent and are threatened with homelessness. HUD will look for more efficient ways to structure these rental programs in order to continue to assist more low-income families without adding to the deficit problem.

- **Q. Why is the Administration funding the renewal of Section 8 expiring contracts for only one year? That's a gimmick. It will compound the BA problem in FY 1998. A.** A one-year term is doable, proper, and simply extends the reduction in terms begun by the Congress in 1993. HUD has assured us that a one-year term can be implemented without major problems. (Varying contract terms has no effect on outlays. Moving to one-year terms now will increase BA need in FY 1998, but even a two-year term would just defer the increase until 1999. Once implemented, a one-year term will be easier to administer because systems will be in place to extend these contracts annually. HUD will know that these contracts need to be extended each year, instead of wondering which contracts expire in which year.)

- **Q. Why is funding for housing for the elderly and disabled being reduced from 1996 levels? A.** The request adds more new units for the disabled than in 1996, up from 2,700 to 2,900. The number of new elderly units funded decreases from 8,700 to 6,800. The elderly have been receiving a disproportionate share of new assistance for some time, whereas housing needs are growing fastest for families. The 1997 request helps target new housing assistance to the neediest populations.

- **Q. Is homeless assistance being reduced?** A. No. As a Presidential priority, the Administration is requesting $1,120 million for HUD homeless programs in 1997, the highest level ever. [See above Explanatory Note for an explanation of past funding levels.]

- **Q. How does this year's Portfolio Reengineering proposal for FHA-insured subsidized multifamily housing differ from last year's Mark-to-Market proposal? Is there still a need for this proposal?** Portfolio Reengineering (PR) retains the core principles of Mark-to-Market. HUD will be able to proactively restructure mortgages (paying partial or full FHA claims where necessary) to prepare properties to function without subsidy in the open market. It converts most project-based assistance for these properties to portable vouchers to improve the efficiency of rent subsidies and give low-income tenants market power to seek the best available housing. A new feature in PR protects currently assisted tenants against displacement by allowing voucher rents to rise above fair market level (local market average) as long as those rents are reasonable compared to housing of similar quality. Portfolio Reengineering is needed to prevent large mortgage defaults and escalating subsidy costs. Under credit reform, the proposal would produce $1.4 billion in present value PAYGO savings. In present value terms, HUD estimates PR also will save $4.4 billion in discretionary subsidies over 25 years.

BUDGET ISSUES IMPACTING STATE AND LOCAL GOVERNMENTS:

- HUD Reinvention. The budget builds on the President's reinvention proposal of last year by restructuring the major programs of the Department. The Administration will consolidate HUD programs into flexible, performance-based funds. It will award most funding by formula, as in a block grant, but focus it on clearly defined national goals. Communities' use of funds will be judged against measures that are consistent with national goals but tailored to each community's situation. To reward results, communities will be eligible for bonus funding. Funds will go to communities that set and achieve ambitious performance goals, consistent with national program objectives and local needs. To support this reinvention, HUD will be transformed into a "right-side-up, community-first" agency by creating single points of contact for all major localities. HUD will move many of its staff out of Washington and former regional offices, into the communities to operate as problem-solvers, working with and for the States and communities rather than as obstacles to change. FHA mortgage operations will be transformed into a "performance-based organization" with flexibility and incentives to operate in a business-like way.

- Round II of Empowerment Zones. The Administration proposes a second round of Empowerment Zones and Enterprise Communities designations to continue to stimulate private-sector investment and economic opportunity in America's distressed urban and rural communities and to connect residents to jobs available throughout the local labor market. We would designate 105 new communities to receive a combination of tax incentives, direct grants and priority consideration for flexibility from the President's Community Empowerment Board, chaired by Vice President Gore. Communities that were designated in the first round as Supplemental Zones and Enterprise Communities would be eligible to compete for the new designations, as would other urban, rural and Indian Nation communities that meet the EZ/EC eligibility criteria. The President's budget proposal for the second round of EZ/EC designations includes approximately $1 billion for tax incentives, such as a brownfields tax incentive and enhanced section 179 expensing, and $1 billion for direct grants, over 3 years. Each designated community would be required to identify performance benchmarks for what they expect to accomplish each year of the ten-year designation.

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Attachment B

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

(discretionary BA and OLs in millions of dollars)

Program	FY 1993 Actual		FY 1996 Estimate[1]		FY 1997 Request		FY 1997 Request Less: FY 1993 Actual		FY 1997 Request Less: FY 1996 Estimate	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Public and Indian Housing										
Public Housing Operating Fund	2,457	2,569	2,900	2,874	2,900	2,894	443	325	0	20
Public Housing Capital Fund	3,840	3,297	2,660	4,436	3,200	4,276	(640)	979	540	(160)
Severely Distressed Public Housing	300	0	500	128	650	283	350	283	150	155
All Other Public and Indian Housing	0	0	293	182	583	340	583	340	290	156
Total Public & Indian Housing	6,597	5,866	6,353	7,620	7,333	7,793	736	1,927	980	173
Community Planning & Development										
CDBG–Community Dev. Block Grant Fun	4,243	3,198	4,600	5,093	4,900	4,931	657	1,733	300	(162)
HOME Fund	1,233	212	1,400	1,240	1,550	1,401	317	1,189	150	161
Homeless Assistance Fund	572	172	823	198	1,120	644	548	472	297	446
All Other Community Planning & Dev	36	49	33	359	218	94	182	45	185	(265)
Total Community Planning & Dev	6,084	3,631	6,856	6,890	7,788	7,070	1,704	3,439	932	180
Housing										
Annual Contributions	2,225	N/A	2,107	N/	860	N/A	(1,365)	N/A	(1,247)	N/A
Renewals of Sec. 8 expiring contracts	6,926	N/A	4,351	N/A	4,260	N/A	(2,666)	N/A	(91)	N/A
Housing Certificates/Incremental Vouchers	1,307	N/A	400 -245	N/A	290 -145	N/A	(1,017)	N/A	(110)	N/A
Housing for Special Populations: Elderly and Disabled	1,325	N/A	1,003	N/A	769	N/A	(556)	N/A	(234)	N/A
Subtotal	9,151	13,719	7,861	15,402	6,179	16,835	(2,972)	3,116	(1,682)	1,433
All Other Housing	3,424	1,463	693	1,787	428	1,568	(2,996)	105	(265)	(219)
Total Housing	12,575	15,182	8,554	17,189	6,607	18,403	(5,968)	3,221	(1,947)	1,214
All Other HUD	535	550	543	535	572	560	37	10	29	25
Discretionary Receipts	(266)	(266)	(2,050)	(2,050)	(643)	(643)	(377)	(377)	1,407	1,407
Total, Department of Housing and Urban Development	25,525	24,963	20,256	30,184	21,657	33,183	(3,868)	8,220	1,401	2,999

1 Includes supplementals, rescissions, and adjustments to continuing resolution levels.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Route Slip

To: Robert Litan
Karin Kizer
Diane Limo
Steve Redburn

Take necessary action	[ ]
Approval or signature	[]
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Discuss with me	[ ]
For your information	[ ]
See remarks below	[x]

From: Katherine Meredith
(202) 395-4988

Date: March 15, 1996

REMARKS

As an additional information source for Bob in his budget briefing book for HUD, please find attached tables describing the three one-time factors that distort the outlay trend from 1995 to 1997. The table shows the MAX totals that printed in the President's FY 97 Budget and removes the one-time savers to show an adjusted total. This adjusted total reflects a even trend upward, which one would expect to find (the non-adjusted total appears as if BA and OL decreases from FY 95 to 96 and then has a big jump to FY 1997).

Also attached is a replacement page while details the number of HUD incremental housing units.

Department of Housing and Urban Development
One-time Discretionary Savers for FY 1996

One-time factors distort the outlay trend from 1995 to 1997, as follows:

1) A one month pre-funding of PIH and Housing Contracts was done at the end of FY 1995 because of the likelihood of a government shutdown. The cost should have been paid in FY 1996; therefore, to show the true trend in spending, outlays should be decreased in FY 95 and increased by the amount of $1,139 billion. No effect on budget authority.

2) FHA Single Family Assignment. One-time receipts of $1.066 billion in both budget authority and outlays reflect present value of savings from reforms affecting pre-1996 FHA mortgages.

Effect on FY 95- 97 BA and OL (discretionary totals in millions)

	FY 1995	FY 1996	FY 1997
MAX Totals:			
BA...............................	$20,126	$20,256	$21,657
OL...............................	31,821	30,184	33,183
Removal of savings:			
Prefunding, OL............	(1,139)	1,139	
FHA Assignment			
BA...............................		1,066	
OL...............................		1,066	
Adjusted Totals:			
BA...............................	$20,126	$21,322	$21,657
OL...............................	30,682	32,389	33,183

Department of Housing and Urban Development
One-time Discretionary and Mandatory Savers for FY 1996

The table below also shows one-time effect of mandatory savings for proposed Portfolio Reengineering (a.k.a. Mark-to-Market) assuming enactment in FY 1996. Total one-time savings in BA and OL for $1.386 billion, scored under credit reform to authorizations actions.

Effect on FY 95- 97 BA and OL (HUD totals in millions)

	FY 1995	FY 1996	FY 1997
MAX Totals (Disc. + Mand):			
BA...............................	$19,800	$17,874	$21,910
OL...............................	29,044	26,432	32,175
Removal of savings:			
Prefunding (Disc.):			
OL...............................	(1,139)	1,139	
FHA Assignment (Disc.):			
BA...............................		1,066	
OL...............................		1,066	
Portfolio Reengineering:			
Mandatory Receipts		1,386	
Adjusted Totals:			
BA...............................	$19,800	$20,326	$21,910
OL...............................	27,905	30,023	32,175

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HUD: INCREMENTAL HOUSING UNITS
FY 1997 Budget

PROGRAM	FY 1995	FY 1996	FY 1997	COMMENT
Rental Vouchers & Certificates (Incremental)	14,644	35,398	50,000	Includes: 41,150 vouchers & 8,850 project-based rental subsidies e.g., vouchers to relocate tenants from low-income projects not preserved.
Elderly & Disabled, New Construction & disbled rental vouchers	12,569	12,569	9,722	Includes: 6,750 Elderly New Const. grants; 1,562 Disabled New Const. grants & 1,410 Disabled rental vouchers (5-yr).
Indian Housing, New Construction	2,084	1,603	1,603	New Construction of Housing on Indian land.
Public Housing, New Construction	(264)	0	0	While PHAs could use capital funds to construct new public housing units, the budget does assumes all funds will be devoted to modernization.
Housing Opportunities for Persons With AIDS (HOPWA)	7,000	6,800	6,600	Includes new construction, rehab, and rental subsidies.
TOTAL INCREMENTAL UNITS	36,033	56,370	67,925	

this figure is under construction

Note: Units funded by enacted BA, adjusted by rescissons.

enacted: 50,000

$186,000 ⇒ $5M rescision ⇒ to $171M
FY95 enacted

Dept-wide vouchers have ↑'d

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3/19 HUD Budget Hrg

- Sec. 8 - 30,000 New (welfare to wk) - 20,000 → targeted/already assisted
  - prop dispos
  - opt outs
  - MTM
- $244M ↓ in elderly + disabled hsg

- Restoring Cuts to key Initiatives
- Focus on Reinvention
- Fully Funding Sec. 8 Contract Renewals

- MTM
  - What ab't contracts expiring this yr → renewed @ up to 120% of mkt - dec whether project or t-based decided @ local level

- What does FHA as perf-based mean?
  - more flexibility → personnel, product, procurement

Cuts in sec 811? - despite worst case needs showing highest need for PWD
- Sec. 8 → possible to ↑ #s served by ↓'s contract term (from 5 to 1 yr

Sec. 202 - need authorization for new ideas?
- goal to open program to more creativity, flex
How can we cut 202 when recent hsg needs show elderly a big %?

Comm-based involvem't? no req't for dec-making
HUD: ↑'d access to info

- Working w/ Bond + Mikulski to move $30M from HOPE II to Drug Elim

Brooke

- S → protecting below 50% of inc
  reforming rents - earned inc disregards

HVRP → 1.3 M / agency (HUD is out of 96 approp; DOL out of 96 approp)

1) 290 M for 50,000 (targeted to need to rationalize/protect)

- less than
- Repubs → we don't have $ in acty 3 to support
- 95 → Repubs proposed to wipe out (got most of em in Res)
- New inc'l → 20-yr bipart effort

↑ over cont, but level to what we're proposing for 96
+ ↑ over 95 post-rescission (0-10,000)
400M → 35,000 ⇒ we're trying for 165 M in addbacks as part of $8B → would fund 50,000
50,000 97

2) 1,120 H'less fund → all-time hi for HUD?
= to 95 enacted

Flat funding, given 20% ↓ in overall budget