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The Department of Housing and Urban Development (HUD): FY2006 Budget

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Summary

In February 2005, a House Appropriations Committee reorganization plan abolished the Veterans Affairs, Department of Housing and Urban Development (HUD), and Independent Agencies Subcommittee, sending HUD to a new *Treasury, Transportation, Judiciary, Housing and Urban Development, District of Columbia and Related Agencies* Subcommittee. A similar but not identical change was made in the Senate, creating the *Transportation, Treasury, HUD* Subcommittee.

On February 7, 2005, the Administration submitted a \$29.1 billion FY2006 budget request for HUD, which is 9% less than was provided in FY2005. The most controversial part of the budget proposal would eliminate the Community Development Block Grant program in HUD and transfer its purposes to the Department of Commerce, combining it with 17 other programs (that had approximately \$5.6 billion of appropriations in FY2005) into a new \$3.7 billion Strengthening America's Communities Initiative (SACI) grant program. According to the Administration, the initiative is intended to consolidate the delivery of federal community and economic assistance and to better target the spending to areas with the greatest needs. Other HUD programs affected by this proposal include rural housing and economic development, Brownfields, and Empowerment Zones. While funding for Section 8 tenant-based rental vouchers would be increased by close to \$1.1 billion under the President's budget, the HOPE VI program is again slated for elimination, with the Administration also asking for a rescission of \$143 million in HOPE VI funds that were appropriated for FY2005. Funding for Homeless Assistance Grants would be increased by \$200 million, but funding for the Housing for Persons with Disabilities program (Section 811) would be cut by nearly 50%. The Lead-Based Paint Hazard Reduction Program would be reduced by \$48 million and Native American Block Grants would be cut by \$39 million.

On June 30, 2005, the House approved an FY2006 Transportation-Treasury-HUD (TTHUD) appropriations bill, H.R. 3058, funding HUD at more than \$4 billion above the President's requested level. The bill rejects the President's SACI initiative and funds CDBG at HUD. It increases funding above the President's request for the Section 811, HOPE VI, CDBG, Brownfields, HOPWA, Lead-based Paint Hazard Reduction, and Fair Housing programs.

On July 21, 2005, the Senate Appropriations Committee passed its version of H.R. 3058, providing over \$5 billion more for HUD than the President requested and over \$1 billion more than the House version allocates. Like the House bill, the Senate version rejects the President's SACI initiative and funds CDBG and related programs within the HUD budget. It also increases funding above the President's request and the House approved level for HOPE VI, CDBG-related programs (including Section 108 loan guarantees), Native American Housing Block Grants, and Rural Housing and Economic Development. Floor action on the bill is expected sometime after the August recess.

This report will be updated as legislation proceeds in the 109th Congress.

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The Department of Housing and Urban Development (HUD): FY2006 Budget

Most Recent Developments

Senate Appropriations Committee Approves H.R. 3058. On July 21, 2005, the Senate Appropriations Committee approved a \$34.8 billion FY2006 budget for HUD. Like the House version, the Senate bill rejects the President's Strengthening America's Communities Initiative (SACI). It increases funding above both the President's request and the House version for HOPE VI, Community Development Block Grant (CDBG)-related programs (including Section 108 loan guarantees), Native American Housing Block Grants, and Rural Housing and Economic Development.

House Approves H.R. 3058. On June 30, 2005, the House, by a vote of 405 to 18, approved H.R. 3058, its version of the FY2006 Treasury, Transportation, Judiciary, Housing and Urban Development, District of Columbia, and Related Agencies (TTHUD) funding bill, the HUD portion totaling \$33.7 billion. During floor consideration, several amendments were approved, increasing funding for Section 8 vouchers, HOPE VI, CDBG, Brownfields, HOPWA, Lead-based Paint Hazard Reduction, and Fair Housing programs, above the Committee-approved levels.

House Appropriations Committee Approves H.R. 3058. On June 21, 2005, the House Appropriations Committee approved, with minor changes, the FY2006 TTHUD funding bill that was approved by the Subcommittee on June 15, 2005. H.R. 3058 provides an overall increase in funding for HUD of over \$4 billion above the President's request.

House and Senate Budget Resolutions Passed. In March 2005, both the House and Senate passed differing versions of a budget resolution for FY2006 (H.Con.Res. 95). Both expressed support for the CDBG program.

President's Budget Submitted. The President submitted his budget to the Congress on February 7, 2005, requesting \$29.1 billion for HUD, a cut of \$2.8 billion or 8.75% from FY2005 appropriations of \$31.9 billion. The most controversial aspect of the budget was the proposed elimination of the CDBG and related programs at HUD and their replacement with a new "Strengthening America's Communities Initiative" at the Department of Commerce.

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 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 the housing and community development 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 fourth quarter of 2004, the national homeownership rate stood at 69.2, while the rates for White, Black and Hispanic households stood at 76.2%, 49.1% and 48.9% respectively.) HUD's Federal Housing Administration (FHA) insures mortgages made by lenders to lower income homebuyers, many with below-average credit records, and to developers of multifamily rental buildings containing relatively affordable units.

**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	\$31.92

Source: Figures are from the House Appropriations Committee estimate tables. FY2005 figures are adjusted to reflect the 0.8% across-the-board rescission enacted in P.L. 108-447. Final spending levels for any fiscal year include all supplemental appropriations or rescissions.

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

FY2005 Appropriations

The President signed the Consolidated Appropriations Act, 2005 on December 8, 2004 (P.L. 108-447) providing HUD with \$31.9 billion, about 2% above the FY2004 enacted level. The Administration had proposed a controversial initiative, the Flexible Voucher Program (FVP), that would have significantly revised the Section 8 voucher program and cut its funding. Congress did not adopt the FVP, but continued with dollar-based funding, a practice first adopted in FY2004 that provided some of the spending constraint that the Administration sought. Nevertheless, the bill signed by the President approved \$1.6 billion more for Section 8 than the requested level. To pay for this significant increase, most other HUD programs were reduced below their FY2004 appropriation levels. While the Administration proposed no funding for the HOPE VI public housing revitalization program, P.L. 108-447 appropriated \$144 million.

FY2006 Budget Issues

Table 2 below details the President's FY2006 HUD budget and tracks the Congressional response.

**Table 2. Appropriations: Housing and Urban Development,
FY2005 to FY2006**

(budget authority in \$ billions)

Program	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm
Tenant-based rental assistance (Sec. 8 vouchers) (includes advanced appropriation)	14.766	15.845	15.631	15.636
Project-based rental assistance (Sec. 8)	5.298	5.072	5.088	5.072
Public housing capital fund	2.579	2.327	2.600	2.327
Public housing operating fund	2.438	3.407	3.600	3.557
HOPE VI	0.143 ^a	0.000 ^a	0.060	0.150
Native American housing block grants	0.622	0.583 ^b	0.600 ^c	0.622
Native Hawaiian Block Grant	^d	0.009	0.009	^d
Housing for Persons With AIDS (HOPWA)	0.282	0.268	0.290	0.287
Rural Housing Economic Development	0.024	0.000 ^e	0.010	0.024
Empowerment Zones; Enterprise Communities (EZ/EC)	0.010	0.000 ^e	0.000	0.000
Community Development Fund (CDF)/Community Development Block Grant (CDBG) (including supplemental funding)	4.852 ^f	0.000 ^e	4.243 ^g	4.324

Program	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm
Brownfields redevelopment	0.024	0.000 ^e	^g	0.015
HOME Investment Partnerships	1.900	1.941	1.900	1.900
Homeless Assistance Grants	1.241	1.440	1.340	1.415
Self Help Homeownership	^h	0.030	0.061 ⁱ	^h
Housing for the elderly (Sec. 202)	0.741	0.741	0.741	0.742
Housing for the disabled (Sec. 811)	0.238	0.120	0.238	0.240
Housing Counseling Assistance	^j	0.040	^k	^k
Rental Housing Assistance	0.000	0.026	0.026	0.026
Research and technology	0.045	0.070 ^l	0.061 ^l	0.048
Fair housing activities	0.046	0.039	0.047	0.046
Office, lead hazard control	0.167	0.119	0.167	0.167
Salaries and expenses	0.543	0.579	0.579	0.570
Working capital fund	0.268	0.265	0.062	0.265
Inspector General	0.079	0.079	0.079	0.082
Loan Guarantees ^m	0.013	0.004	0.004	0.013
Appropriations Subtotal	36.318	33.003	37.226	37.529
Sec. 8 recaptures (rescission)	-1.557	-2.500	-2.494	-1.500
HOPE VI rescission ^a	0.000	-0.143	0.000	0.000
Other rescissions	-0.764 ⁿ	0.000	0.000	0.000
Rescissions Subtotal	-2.321	-2.643	-2.494	-1.500
Federal Housing Administration (net)	-1.724	-0.856	-0.913	-0.913
GNMA (net)	-0.357	-0.357	-0.357	-0.357
Offsets Subtotal	-2.082	-1.213	-1.271	-1.270
Total	\$31.915	\$29.147	\$33.671	\$34.759

Source: Prepared by CRS based on information provided by the House Committee on Appropriations, HUD's Congressional Budget Justifications, House-passed and Senate Appropriations Committee-passed versions of H.R. 3058, H.Rept. 109-153, and S.Rept. 109-109. FY2005 figures are adjusted to reflect the 0.8% across-the-board rescission enacted in P.L. 108-447.

Note: This table does not include two accounts whose costs are equal to their offsetting receipts: Manufactured Housing Fees Trust Fund (\$12.9 million in FY2005 and \$13 million in FY2006) and the Office of Federal Housing Enterprise Oversight (\$58.7 million in FY2005 and \$60 million in FY2006).

- The Administration has proposed that in FY2006, Congress provide no new funding and also rescind the HOPE VI funding provided in FY2005.
- Includes \$58 million for Indian community and economic development activities, which, in FY2005, received \$68 million as a set-aside within the Community Development Fund.
- Includes \$45 million for Indian community and economic development activities, which, in FY2005, received \$68 million as a set-aside within the Community Development Fund.

- d. In FY2005, \$8.9 million was provided for this program (Hawaiian Homelands Homeownership) as a set-aside within the Community Development Fund. The Senate bill provides \$8.8 million for this program in the Community Development Fund.
- e. For FY2006, the Administration proposes to eliminate these programs and replace them with a new program funded in the Commerce Department.
- f. The CDBG appropriation includes \$180.8 million in CDBG supplemental funding for FY2005, including \$30.8 million appropriated under Section 424 of P.L. 108-447 and \$150 million appropriated under P.L. 108-324.
- g. Two floor amendments to the House Appropriations Committee version of H.R. 3058, adding funds to the CDF account, were approved. H.Amdt. 396 added \$67.5 million to the CDF account to increase funding for CDBG formula grants and ensure funds were available for Youthbuild. H.Amdt. 404 added \$24 million to the CDF account to be used for Brownfields.
- h. In FY2005, \$24.8 million was provided for this program as a set-aside within the Community Development Fund. The Senate bill provides \$15 million for this program in the Community Development Fund.
- i. The House bill would rename this account Self-Help and Assisted Homeownership and transfer to it funding for several set-asides that were formerly funded under the Community Development Fund, including \$24 million for the Self-Help Homeownership Program (SHOP), \$28 million for the National Community Development Initiative, \$3 million for the Housing Assistance Council, \$1 million for Special Olympics, and \$1 million for the National American Indian Housing Council. The account also includes \$4 million for a one-time grant to the Housing Partnerships Network, which was not previously funded under CDBG.
- j. In FY2005, \$41.7 million was provided for this program as a component of HOME.
- k. The House provides \$41.7 million for Housing Counseling Assistance as a set-aside within the HOME program. The Senate bill provides \$42 million for Housing Counseling Assistance as a set-aside within the HOME program.
- l. Includes \$29 million requested for University Partnerships, which, in FY2005, received a total of \$33 million as set-asides within the Community Development Fund.
- m. This category includes Section 108 (\$7 million in FY2005, \$0 in President's request and House bill, \$7 million in Senate bill), Native Hawaiian housing (\$992,000 in FY2005 and \$882,000 in President's request and House bill, \$1 million in Senate bill) and Indian housing loan guarantees (\$5 million in FY2005 and \$2.6 million in President's request and House bill, \$5 million in Senate bill). For FY2006, the Administration proposes to eliminate Section 108 loan guarantees and replace them with the new larger program in the Commerce Department.
- n. Includes one-time rescissions of unobligated balances from the following accounts: Public Housing Drug Elimination grants, Title VI credit subsidy, Urban Development Action Grants, rental housing assistance and GI/SRI credit subsidy.

Section 8 Tenant-based Rental Assistance. The Section 8 program is really two programs: tenant-based rental assistance, commonly called vouchers, and project-based rental assistance (see below). The two programs were previously funded under a joint account called the Housing Certificate Fund, which was split into the two components by the FY2005 appropriations law. (See CRS Report RL32284, *An Overview of the Section 8 Housing Program*.) Section 8 Housing Choice Vouchers (vouchers) are portable federal subsidies that low-income families use to reduce their housing costs in the private market. HUD currently funds over two million Section 8 vouchers. Note that approximately \$4.2 billion of the funds shown in the table below are provided in the form of an advance appropriation for the following year, and each year approximately \$4.2 billion is available from the previous year. This advance funding structure had been used to provide funds to the Public Housing Authorities (PHAs) that administer the voucher 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. The FY2004 appropriations bill synchronized PHA fiscal year start dates; however, this advanced funding structure has continued.

**Table 3. Section 8 Tenant-based Rental Assistance (Vouchers),
FY2005 to FY2006**
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Section 8 Tenant-based Rental Assistance (vouchers)	\$14,765,920	\$15,845,194	\$15,631,400^a	\$15,636,064
Voucher Renewals	13,355,285	14,089,756	14,189,756	14,089,756
Administrative Fees	1,200,426	1,295,408	1,225,000	1,295,408
Rental subsidy reserve	0	45,000	^b	^c
Family Self Sufficiency	45,632	55,000	45,000	48,000
Tenant Protection	161,696	354,081	165,700	192,000
Working Capital Fund	2,881	5,949	5,900	5,900
Tech. Assist. Board ^d	—	—	—	5,000

Source: See Table 2.

- The House provides \$15,631,400,000 for tenant-based rental assistance, but the amounts provided for the components of the account as listed in the bill and the report total to \$15,631,356,000. The \$44,000 discrepancy has not been clarified and may be due to rounding.
- The House would permit up to \$45 million to be set aside in renewal funding for the Secretary to use to adjust the budgets of agencies that were adversely impacted by the FY2005 funding formula due to portability vouchers.
- The Senate version of H.R. 3058 would permit the Secretary to use up to \$45 million of renewal funds to be used to adjust the budgets of agencies who were adversely impacted by the FY2005 formula due to the 3-month period of time used or due to portability vouchers.
- See Table 17.

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

FY2005: \$4.20 billion (for use in FY2006)

FY2006: \$4.20 billion (for use in FY2007)

Rescission of Unobligated Balances from Prior Years:

FY2005: \$1.6 billion

FY2006: \$2.50 billion (proposed); \$2.49 billion (House); \$1.5 billion (Senate).

Voucher Renewals. The most contentious aspect of the tenant-based assistance account is the renewal of existing vouchers. Congress has authorized the creation of more than 2 million vouchers over the history of the program and the funding for virtually all of them expires every year. If a family is using a voucher to lease an apartment, but funding is not sufficient to renew it, that family will lose its assistance and likely lose their current housing. Prior to FY2004, HUD funded PHAs based on the number of vouchers they were using and the cost of those vouchers. If the costs went up or they were able to use more of their vouchers, they received additional funds to cover those costs. In FY2005, at Congress's direction, HUD funded PHAs based on the number of vouchers they were using and the cost of those vouchers in May-July 2004, plus inflation, reduced by 4%. This new formula was designed to help contain the growing cost of the program. It was met with opposition from many PHAs for whom the result of the formula was inadequate funding to

maintain their programs. While it appears that few agencies were required to terminate assistance to families as a result of budget shortages, many agencies did have to suspend the reissuance of vouchers when families left the program and undertake other administrative measures to cut costs.

The President's FY2006 budget request includes \$14.1 billion to renew expiring voucher subsidies, an increase of 5% from FY2005. Renewal funding would be distributed to PHAs on a pro-rata basis, based on what they received last year, plus an inflation adjustment. In addition to renewal funding, the Administration has requested \$45 million for a central reserve fund. The central fund would be used to cover the cost of unforeseen exigencies experienced by PHAs, such as natural disasters or significant changes in the economic condition of a locality. Congress provided HUD with a central reserve account in FY2003 and FY2004, but not in FY2005.

H.R. 3058, as it passed the House Appropriations Committee on June 21, 2005, provided over \$300 million less for tenant-based assistance than the President requested but funded renewals at the President's requested level. During floor proceedings on June 30, 2005, an amendment adding \$100 million for tenant-based renewals was approved. The increase was offset by a decrease in funding for the Working Capital Fund. The House bill would distribute renewal funding using the same formula proposed by the President. Rather than providing a \$45 million reserve for exigencies, H.R. 3058 would set aside \$45 million of renewal funding to provide adjustments to PHAs whose budgets were adversely affected by the FY2005 funding formula due to a high number of portability vouchers.

The Senate Appropriations Committee version of H.R. 3058 funds renewals at the President's requested level. Unlike the House bill and the President's request, the Senate bill would not fund agencies based on the funding they received in FY2005 plus inflation. Rather, agencies would receive renewal funding based on their voucher costs and leasing over the past 12 months, plus inflation, and pro-rated to fit within the amount appropriated. This use of more recent data has been advocated by low-income housing and PHA groups. The Senate bill does not provide an additional sum of money for budget adjustments; instead, it provides the Secretary with the authority to use up to \$45 million of the amount provided for renewals to adjust PHA budgets if they were adversely impacted by the May-July formula either because those months were anomalous for the agency or because the agency faced a high number of portability vouchers.

Some questions have been raised as to whether the amount provided in the Senate bill for renewals would be sufficient to fund all vouchers currently in use at their actual cost. Since the data that would be used for the formula is not fully reported, it is impossible to fully answer the question at this point. However, cost and utilization data as assessed by the Congressional Budget Office indicates that if costs are as they project them to be (an average of \$6,895 per voucher per year) and if utilization stays level with FY2004 utilization (96%), then this funding level would be sufficient, assuming that less than the full \$45 million were used for budget adjustments. Adding to the concern about the adequacy of renewal funding is a provision in the Senate bill regarding the renewal of vouchers authorized under Section 811. The Senate Appropriations Committee bill states that funding to renew

vouchers authorized under Section 811 is to come from the tenant-based rental assistance account. Since the account would then be responsible for renewing additional vouchers (HUD budget justifications indicate that 11,061 Section 811 mainstream vouchers will require renewal in FY2006), additional questions can be raised about the adequacy of the amount provided for renewals.

Administrative Fees. Prior to FY2003, PHAs were paid a fixed fee per voucher administered. Beginning in FY2003, at Congress's direction, HUD changed the way it distributed administrative fees, providing agencies with a pro-rata share of the amount appropriated for administrative fees, based on what they had received in the previous year. The change was designed to contain the growing cost of administrative fees, which were estimated to have grown to account for 10% of the cost of a voucher.

The President's FY2006 budget request includes an 8% increase for administrative fees paid to PHAs managing the program. The budget would continue the practice adopted over the past three years of distributing the fees on a pro-rata basis rather than via a regulatory formula.

The House bill would provide less than the President requested for administrative fees but more than was provided last year. Administrative funding would be allocated on a pro-rata basis, except for \$25 million that the Secretary would be permitted to set aside to distribute to agencies that need additional funds to administer their programs. Further, the bill would permit the Secretary to transfer up to \$200 million from administrative fee funding to project-based rental assistance. If that money were transferred to the project-based account, the result would be a cut of almost \$225 million from FY2005.

The Senate Appropriations Committee bill would fund administrative fees at the President's requested level (an 8% increase over the amount provided in FY2005) and would distribute the fees on a pro-rata basis.

Tenant Protection Vouchers. Tenant protection vouchers are provided to families in a variety of circumstances, including families who are threatened with displacement because the contract on their assisted unit is ending (project-based Section 8, for example); families who are displaced from public housing (due to demolition or disposition); and families in the witness protection program.

Funding for tenant-protection vouchers would be increased by almost 120% from FY2005 to FY2006 under the President's request. The increase is attributed partly to the needs of the HOPE VI program and partly to a new rule that HUD has stated will be published in 2005 that would permit the Secretary of HUD to require the conversion of public housing to vouchers, a practice called Mandatory Conversion.

The report accompanying the House-passed version of H.R. 3058 expresses doubt that the mandatory conversion rule will be implemented before the end of FY2006, and therefore proposes to fund tenant-protection vouchers at roughly the same level as last year (an increase of about 3%).

The Senate Appropriations Committee version expresses the same doubt about the mandatory conversion rule expressed by the House. The committee report also notes that for many of these units, HOPE VI remains a viable option. The bill recommends \$192 million for tenant protection vouchers, which is about 16% more than the House and just over half of the President's requested level.

Rescission. The President's FY2006 budget requested that Congress rescind \$2.5 billion in unobligated balances from the tenant-based rental assistance account. The request includes a provision that if sufficient funds are not available within the account, the Secretary may use funds from other accounts to meet the rescission target. Low-income housing advocates have stated concern that sufficient funds will not be available in the tenant-based rental assistance account and that other programs will be negatively impacted by the rescission. When questioned about the source of funds to meet the requested rescission in hearings before the Senate Appropriations Committee on April 14, 2005, the Secretary indicated that he was not sure where the funds would come from and could not guarantee that they would not come from active programs.¹

The House bill proposes a rescission level of \$2.49 billion, about \$6.4 million less than the President proposed and includes language permitting the Secretary to use funds from other accounts, as necessary. The Senate bill adopts a notably lower rescission level and, if funds are not sufficient within the Section 8 tenant-based or project-based account, the bill directs the Secretary to first take up to 10% from the HUD salaries and expenses account and up to 10% from the Office of Management and Budget's appropriation, before taking funds from other HUD programs.

Voucher Reform Legislation. Beyond funding levels, the FY2006 budget documents also state that the President intends to introduce a new proposal to reform the tenant-based voucher program. One purpose for this reform proposal is to contain, if not reduce, the cost of the program. According to the President's budget summary: "Section 8's program costs are cannibalizing every HUD program — at the same time waiting lists of families seeking housing continue to grow." The Congressional Budget Justifications state that this new proposal will provide additional flexibility to PHAs, which will enable them to run their programs more effectively and efficiently and better respond to the current budget-based funding structure in the program. Reform proposals were also submitted as a part of the FY2004 and FY2005 budgets, although congressional action was not taken on either. The State and Local Housing Flexibility Act of 2005 was introduced in the Senate on April 13, 2005 (S. 771) and in the House on April 28, 2005 (H.R. 1999). It would replace the current voucher program with a new program, called the Flexible Voucher Program, which would have fewer rules and regulations than the current program, would provide for greater discretion in administering the program for both the Secretary of HUD and for PHAs, and, low-income housing advocates contend, would also provide fewer resources and protections for very poor families. For more

¹ Congressional Quarterly, Congressional Transcripts, Congressional Hearings, April 14, 2005, *Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, and Housing and Urban Development Holds Hearing on FY2006 Appropriations*.

information, see CRS Report RL31930, *Section 8 Housing Choice Voucher Program: Funding and Related Issues*.

Section 8 Project-based Rental Assistance . This account provides funding to renew existing contracts between HUD and private landlords that provide subsidies to low-income families to allow them to live in private market rental units and pay 30% of their incomes toward rent. Project-based Section 8 differs from Section 8 vouchers in that the subsidy is provided to a specific unit of housing in which a family can live, rather than to a family which can use it in the housing of their choice. No new contracts are entered into under this program; the funding provided is used only to renew existing contracts and pay administrative costs. This program was formerly funded with the Section 8 tenant-based rental assistance account in a merged account titled the Housing Certificate Fund.

Table 4. Section 8 Project-based Rental Assistance
(in millions of dollars)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Section 8 Project-based Rental Assistance	\$5,298,272	\$5,072,100	\$5,088,300	\$5,072,100
Project-based Renewals	5,195,203	4,923,100	4,940,100	4,918,100
Contract Administrators	101,085	147,200	147,200	147,200
Working Capital Fund	1,984	1,800	1,000	1,800
Tech. Assist. Board ^a	—	—	—	5,000

Source: See Table 2.

a. See Table 17.

Renewals. The President requested a 5% decrease in appropriations for renewal funding for project-based rental assistance contracts; HUD budget documents explain that the Department will augment the renewal funding request with \$622 million in funds recaptured from previous years and savings from program improvements. The additional funds would raise the program level to \$5.6 billion, an increase of 6% over the FY2005 program level.

The House version of H.R. 3058 would provide \$17 million more for renewal of project-based contracts than the President requested. Language is included in the bill permitting up to \$200 million to be transferred from tenant-based rental assistance fees to the project-based account. The Senate version of H.R. 3058 would fund project-based renewals at the President's requested level and does not include the transfer language included in the House. The Senate Committee report raises concern that HUD is not doing enough to encourage landlords in the project-based Section 8 program to renew their contracts and thus preserve the properties as assisted housing. The Senate Committee bill would direct Government Accountability Office (GAO) to assess HUD's efforts to preserve assisted housing.

Contract Administrators. The President's budget request represents a 46% increase in funding for contract administrators. The document further states that \$185 million in unobligated balances will be used to augment the funding for contract administrators, which would be a program level increase of 70% over FY2005. Contract administrators are subcontracted by HUD to manage the long-term Section 8 contracts between HUD and private owners of subsidized multifamily units. HUD continues to manage a portion of the contracts; however, the Department intends to transfer most, if not all, contracts to contract administrators in the future. The FY2006 budget request includes an increase of \$67 million to fund the transfer of additional contracts from HUD to contract administrators. Further, HUD's budget justifications state that it intends to begin using contract administrators to manage rental assistance contracts outside of the Section 8 program, such as those entered into under the Section 202 Housing for the Elderly program. The budget notes that \$30 million would be used to fund these transfers.

Both the House and Senate Appropriations Committee versions of H.R. 3058 would fund contract administrators at the President's requested level.

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. 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, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Public Housing Operating Fund	\$2,438,336	\$3,407,300	\$3,600,000	\$3,557,300
Department of Justice crime prevention (Weed and Seed)	7,936	0	0	0
Graduation bonuses	9,920	10,000	10,000	0
Transition to asset-based management	—	0	50,000	0
Tech. Assist. Board ^a	—	—	—	5,000
Public Housing Capital Fund	\$2,579,200	\$2,327,200	\$2,600,000	\$2,327,200
Technical assistance/remediation	38,930	11,000	11,000 ^b	11,000 ^c
Existing judicial receivership	2,976	8,820	8,820	8,820
Section 23 lease-adjustments	51	—	—	—
Working Capital Fund	10,069	13,320	10,000	13,230
Emergency repairs	29,760	17,000	17,000	17,000
Service coordinators and supportive services (ROSS)	53,072	24,000	24,000	45,000
Neighborhood Networks	14,880	0	0	15,000
Demolition, site remediation	—	—	—	20,000
HOPE VI	\$142,848	\$0^d	\$60,000^e	\$150,000^e

Source: See Table 2.

- a. See Table 17.
- b. The House bill provides this funding only for administrative receiverships as requested for remediation of troubled PHAs; funds are not provided for technical assistance. The Committee notes in its report that the Department has a build-up of unspent technical assistance funds.
- c. The Senate bill provides this funding only for technical assistance.
- d. The President's FY2006 budget proposes no new funding for HOPE VI and requests that Congress rescind the full amount provided to the program in FY2005.
- e. Neither the House nor Senate version of H.R. 3058 would rescind FY2005 HOPE VI funding.

Operating Fund. Operating funds are paid to PHAs to help make up the difference between the low rents paid by tenants living in public housing and the cost of maintaining the buildings. The President's budget requests \$3.4 billion for the operating fund in FY2006. While this represents an increase over the FY2005 *enacted* level, it is a decrease in the *program* level. In FY2005, Congress enacted an accounting change in the program that provided a one-time savings of \$992 million. The total amount available for operating subsidies in FY2005 (minus the set-asides listed above) was \$16 million more than the amount requested for FY2006. Despite the slight decrease, the FY2006 request would be sufficient to fund agencies at a similar proration level as FY2005. According to HUD's budget documents, in FY2005, agencies received approximately 90.5% of the amount that they qualified

for under the operating subsidy formula; in FY2006 they would receive approximately 89%.

On April 14, HUD issued a proposed rule to revise the current formula for distribution operating subsidies. This rule differs from a version of the rule agreed to by HUD and the stakeholders that participated in a congressionally-mandated negotiated rulemaking process. HUD's decision to publish an altered, and arguably less costly, form of the negotiated rule has proved to be controversial. HUD contends that the published rule better reflects the Department's policy and budgetary priorities.

The House version of the HUD funding bill provides almost \$200 million more for the operating fund than the President requested. This would result in more funding available in FY2006 than was available in FY2005. H.R. 3058 directs the Secretary of HUD to distribute FY2006 operating funds using the formula agreed to by the negotiated rulemaking committee. The bill also includes \$50 million to help agencies that face losses of more than 5% under the new formula transition to asset-based management.

The Senate Appropriations Committee's version of the HUD funding bill provides \$150 million more than the President requested for the Operating Fund. This amount is about \$50 million less than the House recommended, but the Senate bill sets-aside fewer funds, leaving more to be distributed through the operating fund formula than the House bill. While the Senate bill does not mandate the use of the negotiated rule, the accompanying report does state that the Committee expects the final rule to "reflect the negotiated agreement...to the greatest extent possible."

Capital Fund. The President's FY2006 budget requests a 10% decrease in capital funding for PHAs. The request would cut the Resident Neighborhood Opportunities for Self Sufficiency (ROSS) funding in half. ROSS funds supportive services for residents of public housing, including job training, work supports and case management. It would also eliminate Neighborhood Networks funding, which is used to build and update technology centers. The amount available for capital grants, after set-asides, would be 7% lower than what was distributed in FY2005. The HUD budget justifications state that the decreased funding level would be sufficient to meet annual capital repair needs. However, there is a backlog of unmet modernization needs in public housing that is estimated to be between \$18-\$20 billion, which this funding level would not address. HUD argues that reductions in the capital fund are necessary to ensure that tenant-based rental assistance receives sufficient funding.

The House-passed version of H.R. 3058 provides almost \$250 million more than the President requested for capital funding. The bill would adopt the President's requested funding levels for ROSS and Neighborhood Networks, so the full increase would go to capital grants. The proposed funding level would provide a 4% increase above the amount available for capital grants in FY2005 and a 12% increase over the amount the President requested for capital grants in FY2006.

The Senate Appropriations Committee-passed version of the HUD funding bill adopts the President's requested funding level for the capital fund, which is lower

than the House-approved level. It increases funding for set-asides above the President's requested level (for example, almost doubling ROSS funding over the President's request), so it leaves less available for capital grants than the President's request (-2%), the FY2005 level (-9%), and the House-approved level (-12%).

HOPE VI. For the third year, the President's budget requested no new funding for HOPE VI, claiming that the program has met its mandate, that program funds are spent too slowly, and that per unit costs are too high. Despite the President's request, in FY2004 and FY2005, Congress funded HOPE VI, but at a lower level than in FY2003 when over \$570 million was provided to the program. In addition to requesting no new funding for the program, the President's budget proposes that Congress rescind the funds it provided to the program in FY2005. Doing so may be complicated, as HUD issued a Notice of Funding Availability (NOFA) for the FY2005 HOPE VI funds on March 21, 2005, and it is possible that HUD would award the funds to communities prior to Congress's approval of an appropriations bill. At that point, Congress may be unable to realize the savings without rescinding the money directly from communities who generally must invest large sums of local money in developing HOPE VI applications and revitalization plans.

The version of H.R. 3058 that passed the House Appropriations Committee on June 21, 2005, did not provide any new funding for the HOPE VI program in FY2006, but did not rescind the FY2005 funding. During floor debate on June 30, 2005, an amendment was approved transferring \$60 million to the HOPE VI program for FY2006 from the General Services Administration's Federal Buildings Fund.

The Senate Appropriations Committee-passed bill includes \$150 million for HOPE VI, a slight increase over the FY2005 level. The Committee, in its report, "urges the Department to reconsider the elimination of the HOPE VI program, and consider a restructured HOPE VI program that is more efficient, cost-effective and still capable of leveraging other funds for rebuilding often distressed communities..." For more information, see CRS Report RL32236, *HOPE VI Public Housing Revitalization Program: Background, Funding, and Issues*.

Native American Block Grants. The Native American Block Grants replaced several separate programs of assistance in 1996. It provides grants to Indian Tribes and their Tribally Designated Housing Entities to meet housing and community development needs in their areas.

Table 6. Native American Block Grants, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Native American housing block grants	\$621,984	\$582,600	\$600,000	\$622,000
Formula Grants	610,744	517,709	549,342	605,700
Technical Assistance	4,464	2,308	2,308	4,500
National American Indian Housing Council	2,183	0	1,200	2,200
Indian Tribes	^a	57,783	45,000	^a
Tech. Assist. Board ^b	—	—	—	5,000

Source: See Table 2. Note that the table does not include all set-asides.

- a. In FY2005, \$68.4 million was provided for this program as a set-aside in the Community Development Fund and the Senate bill recommends \$69 million for this program as a set-aside in the Community Development Fund for FY2006 (see **Table 9**).
- b. See Table 17.

The President's FY2006 budget proposes an appropriation of \$583 million for the Native American Block Grant program, a decrease of \$39 million. The total includes \$58 million for the Indian Community Block Grant activities. In prior years these activities were funded as a set-aside within the Community Development Block Grant program. Effectively, this may be regarded as an additional decrease in funding for the Native American Block Grant program since \$58 million, which would otherwise be used for other purposes, would have to be used for economic development activities.

The House-passed version of H.R. 3058 increased funding for Native American Block Grants above the President's requested level, but below the FY2005 enacted level. The funding for formula grants is 6% above the President's request, but 10% below the FY2005 enacted level. The bill adopts the President's request that the Indian Community Block Grant, which was funded within the Community Development Fund, be funded as a set-aside in this account; H.R. 3058 would set aside \$45 million for this purpose, which is a 35% reduction in funding from FY2005 and a 22% reduction in funding from the President's request.

The Senate Appropriations Committee-passed version of the HUD funding bill increased funding for the Native American Block Grants account above the FY2005 level, the President's request, and the House level. The amount available for formula grants would be slightly decreased from FY2005, but would be an increase of 10% over the House-passed level and 17% over the President's request. The Senate Committee, in its report, notes concern about the significant unspent balances in the account as well as revised eligibility definitions adopted for distribution of FY2004 formula funding. The Committee encourages HUD to work to facilitate the timely expenditure of funds and to reassess the new eligibility definition.

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, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Housing for Persons with AIDS (HOPWA)	\$281,728	\$268,000	\$295,000	\$287,000

Source: See Table 2.

The Administration's budget proposed to reduce HOPWA program funding by 5% in FY2006. This funding decrease, according to HUD budget documents, will reduce the number of households served in FY2006 from 70,400 to 67,000. The Department states that this funding decrease is necessary in order to meet the funding needs of the Section 8 voucher program.

The House Appropriations Committee's version of the bill proposed funding the program above the President's request, at \$285 million. During floor debate of the bill on June 30, 2005, an amendment was added to H.R. 3058 increasing HOPWA funding by another \$10 million, to \$295 million.

The Senate Appropriations Committee-passed bill increases HOPWA funding about \$5 million above the FY2005 level and about \$20 million above the President's requested level, although it provides less than the House by \$18 million. For more information on HOPWA, see CRS Report RS20704, *Housing Opportunities for Persons with AIDS (HOPWA)*.

Rural Housing and Economic Development. This program provides competitive grants to states and localities to fund capacity building and innovative housing and economic development activities in rural areas.

Table 8. Rural Housing and Economic Development, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Rural Housing Economic Development	\$23,808	\$0	\$10,000	\$24,000

Source: See Table 2.

In prior years, the Administration has proposed zero funding for the Rural Housing and Economic Development program (RHED), but Congress has responded by funding the program at about \$25 million. For FY2006, the Administration proposed to consolidate RHED into a new program within the Department of

Commerce, called the “Strengthening America’s Communities Initiative.” (See discussion of Community Development Fund/Block Grants below.)

Neither the House nor Senate Appropriations Committee bill would adopt the President’s Strengthening America’s Communities Initiative and both would continue to fund Rural Housing and Economic Development as a free-standing program at HUD. The House proposes \$10 million, less than half of what was provided in FY2005 while the Senate Committee proposes \$24 million, which is slightly more than was approved in FY2005.

Empowerment Zones (EZ) and Enterprise Communities (EC). The EZ/EC program awards tax incentives to eligible businesses located in EZ designated zones. Grant funds are also awarded to support EZ/EC activities.

Table 9. Empowerment Zones and Enterprise Communities, FY2005 to FY2006

(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 Senate
Empowerment zones; enterprise communities	\$9,920	\$0	\$0	\$0

Source: See Table 2.

The Bush Administration’s budget proposal would eliminate funding for the EZ/EC program along with 17 other community development, economic development, and community service programs, and replace them with a new block grant called Strengthening America’s Communities Initiative. (See discussion of Community Development Fund/Block Grants, below.)

Both the House and Senate versions of H.R. 3058 reject the President’s Strengthening America’s Communities Initiative proposal; however, neither bill would fund EZ/EC in FY2006.

Community Development Fund/Block Grants. The CDBG program is the largest source of federal assistance in support of housing, community and economic development activities of states and local governments. The Administration’s FY2006 budget would eliminate funding for the CDBG program and related set-asides. The activities of the CDBG program along with 17 other community development, economic development, and community services programs would be carried out under a new block grant. The new block grant proposal, called the “Strengthening America’s Communities Initiative,” would be funded at \$3.7 billion. This amount is \$416 million less than the \$4.116 allocated to the formula portion of the CDBG and insular areas in FY2005 and \$1.1 billion less than the \$4.8 billion appropriated in FY2005 for the total Community Development Fund, which includes the CDBG formula program and related set-asides and earmarks.

According to the Administration, the new initiative is intended to:

- reduce fragmentation in the delivery of federal community and economic development assistance by consolidating the activities of 18 programs that are presently administered by five different federal agencies;
- improve accountability by ensuring that communities focus on tangible outcomes; and
- target assistance to areas with the greatest needs.

A number of organizations representing states and local governments have voiced reservations about the Administration's new initiative and expressed support for the CDBG program. Such organizations as the National League of Cities, the U.S. Conference of Mayors, the National Association of Counties, and the National Governors Association have noted that the Administration was late to include them in any discussions about its new initiative and has provided few details about the initiative. A March 1 *Federal Register* notice announced the creation of an advisory panel to assist the Secretary of Commerce develop the legislative proposal. The Administration has noted that the proposal is a work in progress. On July 21, 2005, the Commerce Department announced the release of the SACI advisory committee's report which included a number of findings, guiding principles, and recommendations intended to assist the Secretary develop a specific legislative proposal. The SACI Advisory Committee's report is available from the Department of Commerce at: [http://www.commerce.gov/SACI/SACAC_Report.pdf]. For a discussion of the Administration's proposal, see CRS Report RL32823, *An Overview of the Administration's Strengthening America's Communities Initiative*.

Table 10. Community Development Fund (CDF): Community Development Block Grants (CDBG) and Related Set-Asides, FY2005 to FY2006

(in thousands)

Program	FY2005 enacted	FY2006 request	FY2006 House	FY2006 Senate
Total: CDF, CDBG (see Note below)	\$4,853,073	\$0	\$4,243,000	\$4,323,610^a
Formula-based grants ^b	4,116,835	—	3,877,400	3,767,010
Set-asides (see below for details)	736,238	—	365,600	553,600
Set-asides:	\$736,238	0	\$365,600	\$553,600
Indian Tribes	68,448	c	d	69,000
Disaster Assistance	150,000 ^e	—	—	—
Housing Assistance Council	3,274	0	f	3,000
National American Indian Housing Council	2,381	0	f	2,000
National Housing Development Corporation	4,762	0	0	0
National Council of La Raza	4,762	0	0	4,200
Section 107	43,350	g	h	32,400
<i>Technical assistance</i>	<i>1,389</i>	<i>0</i>	<i>0</i>	<i>0</i>
— <i>Hawaiian Homelands Homeownership</i>	8,928	<i>i</i>	<i>j</i>	8,800
— <i>Historically Black Coll. & Univ.</i>	9,920	<i>g</i>	<i>h</i>	9,000
— <i>Hispanic-Serving Institutions</i>	6,646	<i>g</i>	<i>h</i>	6,000
— <i>Community Development Work Study</i>	2,877	<i>g</i>	<i>h</i>	1,000
— <i>Alaskan Native and Native Hawaiian-Serving Institutions</i>	3,968	<i>g</i>	<i>h</i>	3,000
— <i>Tribal Colleges and Universities</i>	2,976	<i>g</i>	<i>h</i>	2,600
— <i>Community outreach partnership</i>	6,646	<i>g</i>	<i>h</i>	2,000
Working capital fund transfer	3,437		1,600	3,000
Tech. Assist. Board ^k	0	0	0	10,000
Self-Help homeownership opportunity	24,800	l	f	15,000
National Community Development Initiative (NCDI)/Capacity building	34,224	0	f	30,000
Special Olympics	1,984	0	f	0
Youthbuild	61,504	m	50,000 ⁿ	55,000

Program	FY2005 enacted	FY2006 request	FY2006 House	FY2006 Senate
Neighborhood initiative demonstration	41,664	0	0	40,000
Economic development initiatives	291,648 ^o	0	290,000	290,000
Brownfields Economic Development	p	p	24,000 ^p	p

Source: See Table 2.

Note: The total amount shown in FY2005 for the CDF, CDBG account in this table is taken from the HUD Congressional Budget Justifications and is just under \$1 million higher than the amount shown in the House Appropriations Committee's re-estimate of the President's budget table and shown in Table 2. The source of this discrepancy is unclear, but seems to be attributable to the EDI set-aside. See table note *m* below for more details.

- a. The sum of the amount specified in the Senate bill for formula grants and set-asides totals \$2.6 million less than the total appropriation level for the CDF specified in the bill. It is unclear whether the Committee intends for the Department to use these funds for formula grants or for a set-aside.
- b. The amount specified in each appropriations bill for formula grants is split between grants to entitlement communities (which receive 70% of grant funds) and states (which receive 30% of formula grant funds.)
- c. \$57.8 million is requested for this program within the Native American Housing Block Grant. (See **Tables 2 and 5**.)
- d. The House version of H.R. 3058 includes \$45 million for the Indian CDBG program in the Native American Housing Block Grant account. (See **Tables 2 and 5**.)
- e. P.L. 108-324, a supplemental appropriations bill, provided \$150 million to the CDF account for emergency disaster assistance to communities affected by disasters designated by the President between August 31, 2003 and October 1, 2004.
- f. The House version of H.R. 3058 would create a new account called the Self-Help Assisted Homeownership account which would include \$23.8 million for Self-Help Homeownership; \$28 million for capacity building grants to the Local Initiative Support Corporation, the Enterprise Foundation, and Habitat for Humanity; \$1 million for Special Olympics; \$1 million for National American Indian Housing Council; \$3 million for the Housing Assistance Council; and \$4 million in one-time funding for the Housing Partnerships Network. An additional \$1.2 million is provided in the Native American Housing Block Grant account to be awarded to the National American Indian Housing Council for capacity building and technical assistance.
- g. The following amounts are requested within Research and Technology (see **Table 2**): Historically Black Colleges and Universities — \$9.0 million; Hispanic-Serving Institutions — \$6.0 million; Community Development Work Study — \$2.6 million; Alaskan Native and Native Hawaiian-Serving Institutions — \$3.0 million; Tribal Colleges and Universities — \$2.6 million; and Community Outreach Partnerships — \$6.0 million.
- h. The House version of H.R. 3058 would provide \$29 million within the Research and Technology Account (see **Table 2**) for assistance to university based programs previously funded under the CDBG account. Funding for the following university-based program would shift from the Office of Planning and Development to the Office of Policy Development and Research: Historically Black Colleges and Universities — \$8.967 million; Hispanic-Serving Institutions — \$5.979 million; Alaskan Native and Native Hawaiian-Serving Institutions — \$2.989 million; Tribal Colleges and Universities — \$2.562 million; and Community Outreach Partnerships — \$5.979 million; Community Development Work Study — \$2.562 million.
- i. \$8.8 million is requested for this activity within the Native Hawaiian Block Grant. (See **Table 2**.)
- j. The House version of H.R. 3058 would fund this program as a separate account in FY2006 (see **Table 2**) at its requested level, \$8.8 million.
- k. See Table 17.
- l. \$30 million is requested for this program as a separate line item. (See **Table 2**.)
- m. \$58.9 million is requested for this program within the Department of Labor.

- n. A House floor amendment to H.R. 3058 added \$67.5 million to the CDF account; floor statements indicate that up to \$50 million of the amount was available for Youthbuild, unless the program is funded within the Department of Labor.
- o. In addition to the EDIs specified within the HUD portion of the FY2005 omnibus appropriations bill (\$262 million), P.L. 108-447 also appropriated \$31 million to the Community Development Fund for a grant to the Hudson River Park Trust (Division I, Title IV, Section 424). This brings the total EDIs in FY2005, pre-rescission, to \$293 million, which post-rescission, would total \$291.7 million. However, HUD's Congressional Budget Justifications indicate that in FY2005, EDIs were funded at \$291.6 million post-rescission, which is equivalent to \$294 million in EDIs pre-rescission. The source of this additional \$1 million in EDI funds is unclear and was not included in the House Appropriations Committee's re-estimate of the President's budget.
- p. In FY2005 and prior, the Brownfields program was funded in a separate account. A House floor amendment to H.R. 3058 added \$24 million to the CDF account and the sponsor specified that the funds were to be used for Brownfields. The Senate bill funds Brownfields in a separate account.

On June 21, the House Appropriations Committee passed a FY2006 HUD funding bill that included \$4.15 billion for the Community Development Fund within HUD. By recommending FY2006 funding for the CDBG program, the measure rejects the Administration's proposed "Strengthening America's Communities Initiative (SACI)." The proposed funding of \$4.151 billion for the Community Development Fund included \$3.860 billion for CDBG formula grants awarded to entitlement communities and states, which is \$250 less than appropriated in FY2005; and \$290 million for EDI grants for congressional earmarked projects, which is \$30 million more than was made available in FY2005.

Under the bill, as reported by the Committee, a number of CDBG set-asides and related programs would not be funded in FY2006 including the YouthBuild, empowerment zones, brownfields, and Section 108 loan guarantees. In addition, the bill would transfer funding for several CDBG-related asides to other accounts within HUD. A new self-help and assisted homeownership account would provide, among others, \$23 million for the Self-Help Homeownership Program (SHOP), \$28 million for the National Community Development Initiative, and \$3 million for the Housing Assistance Council. It also recommends transferring to HUD's Office of Policy Development and Research \$29 million in funding for university programs previously included as CDBG set-asides under Section 107 — including assistance to historic black colleges and universities, institutions serving Hispanic populations, and a community development work study program.

On June 30, 2005, the House, by a vote of 405 to 18, approved H.R. 3058, and forwarded the bill to the Senate for its consideration. Before approving the bill, the House considered and approved several amendments, two of which increased funding for the CDF account to a total of \$4.324 billion. The House approved by voice vote an amendment (H.Amdt. 396) offered by Representative Knollenberg that would provide an additional \$67.5 million to the CDF account. Floor debate indicated that \$50 million of that amount was to be made available for the Youthbuild program, unless the program was to be funded within the Department of Labor's budget. The additional \$17.5 million was allocated to CDBG formula grants. As approved by the House, the CDBG formula-based program would receive \$3.9 billion in funding, which is approximately \$230 million below its FY2005 funding level. During floor consideration of the bill, the chairman of the TTHUD Appropriations Subcommittee, Representative Knollenberg, stated that he would continue to seek a means of restoring the CDBG formula-based program to its FY2005 funding level. A second

amendment, offered by Representative Gary Miller and approved by voice vote added another \$24 million to the CDF account to be used for the HUD Brownfields Redevelopment program. In prior years, the program was funded within its own account, not as a set-aside within the CDF (see below.)

Representative Gingrey offered, but later withdrew, an amendment that would have prohibited the use of CDBG funds for economic development projects in instances where privately owned land was acquired through the use of eminent domain. The amendment was offered in response to the June 23, 2005, Supreme Court decision in *Kelo v New London, Connecticut*, which upheld the use of eminent domain to acquire privately held property and transfer it to another private party for government-supported economic development projects. The Supreme Court held, in a 5 to 4 decision, that such a transfer is permissible if it results in a public benefit such as job creation and increased tax revenues. (For more information, see CRS Report RS22189, *Condemnation of Private Property for Economic Development: Kelo v. City of New London.*)

On July 21, 2005, the Senate Appropriations Committee approved its version of H.R. 3058 by a vote of 28 - 0. The Senate version of the bill would appropriate \$4.324 billion for Community Development Fund (CDF) activities, including \$3.767 billion for CDBG formula grants, and \$554 million for CDBG-related set asides and earmarks. It would also appropriate \$72 million more for programs and set-asides funded under the CDF account than recommended by the House (see discussion below), but would allocate \$110 million fewer dollars to CDBG formula grants.

The Senate version of the bill would continue to fund a number of smaller CDBG-related programs under the CDF account unlike the House bill, which would provide no funding, reduce funding, or would transfer the activity to another account within HUD. For instance, the Senate bill includes \$69 million for the Native American CDBG while the House version would appropriate \$45 million for the program. The Senate bill would appropriate \$32.4 million in funding for college and university programs and retain the programs under the CDF account while the House bill would transfer the activity to a new Self Help and Assisted Homeownership account; it would appropriate \$40 million for the Neighborhood Initiative Program, a program that was not included in the President's request or the House version of the bill; and it would appropriate \$30 million for capacity building grants under the National Community Development Initiative program, which is \$2 million less than the amount recommended by the House.

During the Senate Appropriations Committee consideration of H.R. 3058, Senator Bond introduced and then withdrew a proposed amendment that would have prohibited the use of federal funds in economic development projects involving the use of eminent domain. The amendment would have allowed the use of federal funds if the project involved airports, seaports, mass transit, or was intended to revitalize a blighted area.

CDBG Section 108 Loan Guarantees. The Section 108 loan guarantee program allows states and entitlement communities to leverage their annual CDBG allocation in order to help finance brownfield redevelopment, large scale economic development, and housing projects. CDBG entitlement communities and states are

allowed to borrow up to five times their annual CDBG allocation for qualifying activities. As security against default states and entitlement communities must pledge their current and future CDBG allocation.

Table 11. CDBG Section 108 Loan Guarantees
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 Senate
Sec. 108 loan guarantee	\$5,592	\$0	\$0	\$6,000

Source: See Table 2.

The Administration included the Section 108 program in the list of programs whose activities would be consolidated under its Strengthening America's Communities Initiative. The House version of H.R. 3058 does not include funding for the program, but the Senate version of the bill would provide a \$6 million subsidy fund that would support a loan commitment ceiling of \$275 million.

Brownfields Redevelopment. The Brownfields Redevelopment program is a competitive grant program that provides funds to assist cities with the redevelopment of abandoned, idled and underused industrial and commercial facilities where expansion and redevelopment is burdened by real or potential environmental contamination.

Table 12. Brownfields Redevelopment, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 Senate
Brownfields redevelopment	\$23,808	\$0	a	\$15,000

Source: See Table 2.

a. For FY2006, the House funds the Brownfields program at \$24 million as a set-aside within the Community Development Fund.

The Administration's FY2006 budget includes Brownfield Economic Development Initiative grants among the 18 programs that would be eliminated and whose activities would be consolidated under a new program — Strengthening America's Communities Initiative — to be administered by the Department of Commerce. (See discussion above.)

H.R. 3058, as reported by the Appropriations Committee, rejected the President's Strengthening America's Communities Initiative proposal; however, it did not include funding for the Brownfields Redevelopment program in FY2006. During consideration of H.R. 3058, the full House approved by voice vote an amendment offered by Representative Gary Miller that would appropriate \$24 million to the Community Development Fund account for HUD's Brownfield program. The Senate version of the bill includes \$15 million for the program.

The HOME Investment Partnership Program. Created in 1990, the HOME Investment Partnerships Program provides formula-based block grant funding to states, units of local government, Indian tribes and insular areas to fund affordable housing initiatives. Eligible activities include acquisition, rehabilitation and new construction of affordable housing as well as rental assistance for eligible families.

Table 13. The HOME Investment Program, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
HOME (total)	\$1,899,680	\$1,941,000	\$1,900,000	\$1,900,000
Formula grants ^a	1,788,756	1,730,000	1,790,000	1,791,000
American Dream Downpayment Initiative	49,600	200,000	50,000	50,000
HOME/CHDO Technical Assistance	17,856	10,000	17,300	10,000
Housing counseling	41,664	b	41,700	42,000
Working capital fund transfer	1,984	1,000	1,000	2,000
Tech. Assist. Board ^c	—	—	—	5,000

Source: See Table 2.

- a. Includes funding for insular areas, which received \$3.6 million in FY2005 and for which the President requested \$3.5 million in FY2006.
- b. The budget proposed that Housing Counseling be funded at \$39.7 million in a separate account.
- c. See Table 17.

The FY2006 budget requests \$1.94 billion for the HOME program, an increase of \$41.3 million over the level enacted in FY2005. This increase would be accomplished by increasing funding by \$150 million for the American Dream Downpayment Initiative (ADDI) and decreasing funding for all the other HOME programs. A similar increase was requested in FY2005 and ADDI was funded instead at \$50 million. Concern was raised that the program may be helping families who may not be the best candidates for homeownership, and a Government Accountability Office (GAO) review of the program suggested that it was unlikely that HUD would be able to obligate more than \$40 to \$50 million during the fiscal year. As in prior years, the budget requests that Housing Counseling be funded in a separate account within the housing programs budget.

Both the House and Senate Appropriations Committee-passed versions of the FY2006 HUD bill would provide \$1.9 billion for the HOME program in FY2006, less than the President requested, but slightly more than was provided in FY2005. In the House bill, funding for formula grants would be increased over both the FY2005 level and the President's requested level. The Senate bill would increase formula grants slightly above the House level. In both bills, the American Dream Downpayment Initiative would be funded close to the FY2005 level, which is substantially less (-75%) than the President's requested level. Neither bill would

provide separate funding for Housing Counseling, as requested by the President; instead, the bills include a set-aside for housing counseling within the HOME account.

Self Help and Assisted Homeownership. The Self Help Homeownership Program (SHOP) provides grants to non-profits, including Habitat for Humanity, to fund self-help homeownership (for example, sweat-equity) programs. In FY2005 and prior years, SHOP was funded as a set-aside within the CDF account. As a part of the larger SACI proposal, the President requested in his FY2006 budget that Congress fund the Self Help Homeownership program as a separate line-item in the budget.

While SACI was not adopted in H.R. 3058, the House did choose to fund SHOP in a new account, with several other programs. This new account, called Self Help and Assisted Homeownership, would consolidate funding for several programs that were previously funded as set-asides within the Community Development Fund account and provide funding for one program that does not appear to have received funding in FY2005. H.Rept. 109-153 notes that most of the programs in the account are funded at a reduced level, consistent with reductions in many HUD programs necessary to meet rental assistance priorities. The Senate Appropriations Committee-passed version of the bill does not include this account.

Table 14. Self Help and Assisted Homeownership
(In thousands of dollars)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Self Help and Assisted Homeownership	NA	NA	\$60,800	NA
Self Help Homeownership (SHOP) ^a	a	30,800	23,800	a
National Community Development Initiative ^a	a	b	28,000	a
Housing Assistance Council ^a	a	b	3,000	a
Housing Partnership Network	—	—	4,000	0
National American Indian Housing Council ^a	a	b	1,000 ^c	a
Special Olympics ^a	a	b	1,000	0

Source: See Table 2.

- a. In FY2005 and in the Senate Appropriations Committee-passed version of the FY2006 HUD funding bill, these programs were and are funded as set-asides in the Community Development Fund (see **Table 9**).
- b. These programs are proposed for elimination as a part of the President's Strengthening America's Communities Initiative (see discussion beginning on page 17).
- c. An additional \$1.2 million is provided in the Native American Housing Block Grant account to be awarded to the National American Indian Housing Council for capacity building and technical assistance. (See **Table 5**.)

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.

Table 15. HUD Homeless Programs, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Homeless Assistance Grants	\$1,240,511	\$1,440,000	\$1,340,000	\$1,415,000
Technical Assist./Data	11,408	11,674	11,674	11,674
Working Capital Fund	2,480	1,000	1,000	1,000
Samaritan Initiative	0	200,000	0	0
Prisoner Re-entry Initiative	0	25,000	0	0
Tech. Assist. Board ^a	—	—	—	5,000

Source: See Table 2.

a. See Table 17.

The President's FY2006 budget request, as in FY2004 and FY2005, proposes to consolidate the three competitive components of the Homeless Assistance Grants account into a single competitive program. Consolidation legislation was not introduced in FY2004 or FY2005, although the FY2006 budget states that legislation will be submitted to Congress this session. The budget includes two additional initiatives. The Samaritan Initiative accounts for the full \$200 million increase over FY2005. It would fund services-enriched supportive housing for chronically homeless individuals. Authorizing legislation for the Samaritan Initiative was introduced in the 108th Congress, but was not enacted and no funds were provided for the initiative in FY2005. The Administration will not submit separate legislation for the Samaritan Initiative in FY2006; rather, it would be a set-aside within the new consolidated grant program. A proposed \$25 million for a Prisoner Re-entry Initiative would be transferred from HUD to the Department of Justice for use in helping individuals exiting prison successfully transition to community life and employment. The same proposal was included in the President's FY2005 budget request, but was not enacted.

The House-passed version of H.R. 3058 provides \$100 million less for the Homeless Assistance Grants account than the President requested, which is \$100 million more than the account received in FY2006. The bill does not designate any funding for the Samaritan Housing Initiative and does not authorize funding for the Prisoner Re-entry Initiative. The Committee report (H.Rept. 109-153) notes that authorizing legislation for the Prisoner Re-entry Initiative has not been enacted.

The Senate Appropriations Committee-passed version of the FY2006 HUD appropriations bill would increase funding above the FY2005 level by about \$175 million and above the House-approved level by about \$75 million. Like the House bill, the Senate bill does not designate any funding for the Samaritan Housing Initiative and does not authorize funding for the Prisoner Re-entry Initiative.

Housing Programs for the Elderly and the Disabled. Formerly known together as Housing for Special Populations, the Section 202 housing for the elderly and the Section 811 housing for the disabled programs provide capital grants and ongoing rental assistance to developers of new subsidized housing for these populations.

Table 16. Sections 202 and 811, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm
Housing for the Elderly (202)	\$741,024	\$741,000	\$741,000	\$742,000
Service coordinators	49,600	53,000	49,600	53,000
Grants for conversion to assisted living	24,800	30,000	24,800	30,000
Pre-development grants	17,856	—	—	20,000
Working Capital Fund	446	450	400	450
Tech. Assist. Board ^a	—	—	—	2,500
Housing for the Disabled (811)	\$238,080	\$119,900	\$238,100	\$240,000
Working Capital Fund	446	450	400	450
PRAC Renewal	2,330	5,000	2,300	NS
New Mainstream Vouchers	9,920	0	5,000	5,000
Mainstream Voucher Renewal	49,600	80,000	78,300	NS
Voucher Amendments	28,659	—	—	—
Tech. Assist. Board ^a	—	—	—	2,500

Source: See Table 2. Note that “NS” indicates that a specific amount is not specified.

a. See Table 17.

While the President’s budget proposal for the Section 202 program would represent level funding, the President’s request for Section 811 represents a 50% cut in funding. Further, the funding provided would not be available for capital grants; rather, the full amount would be used to provide vouchers to persons with disabilities. HUD budget documents do not provide a rationale for the reduction or restriction on use for capital grants. In testimony before the House Appropriations Subcommittee on Transportation, Treasury, HUD, the Judiciary, and the District of Columbia, the Secretary of HUD referred to the need to make unpopular cuts in programs such as Section 811 in order to maintain adequate funding for Section 8 and programs for the homeless.

Both the House and Senate versions of H.R. 3058 would fund the Section 202 program at about the President's requested level and would fund the Section 811 program at about the FY2005 level and would permit funds to be used for capital grants. The Senate bill includes language proposing to transfer the renewal of Section 811 vouchers to the Section 8 tenant-based rental assistance account. It appears that the tenant-based account would be required to absorb their cost, thus leaving additional dollars in the Section 811 account for capital grants.

Affordable Housing and Economic Development Technical Assistance Board. The Senate version of H.R. 3058 would establish a new program designed to provide technical assistance to local non-profit organizations involved in managing HUD programs and activities. The Affordable Housing and Economic Development Technical Assistance Board (AHEDTAB) would be comprised of three national organizations (the Local Initiative Support Corporation, the Enterprise Foundation, and the Centre for Management and Technology), and would be charged with developing uniform policies and best practices to assist local non-profit organizations to effectively develop and manage local housing and economic development programs. The AHEDTAB would be assisted by an advisory board composed of a number of groups which have participated in HUD programs, including the Housing Assistance Council, the Corporation for Supportive Housing, the National Alliance to End Homelessness, the National Council of La Raza, the National Urban League, the National American Indian Housing Council, the National Association for the Mentally Ill, and the American Association of Homes and Services for the Aging.

The program would be funded by transferring a total of \$50 million from several existing HUD programs, including Section 8 tenant-based and project-based rental assistance, the CDBG program, the Native American Housing Block Grant program, the HOME program, Section 202 Housing for the Elderly, the Homeless Assistance program, and Section 811 Housing for Persons with Disabilities program. Neither the President's budget request nor the House version of H.R. 3058 includes a similar provision.

Table 17. Affordable Housing and Economic Development Technical Assistance Board
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 Senate
Tech. Assist. Board	0	0	0	50,000

Source: See Table 2.

Note: This account would not receive a direct appropriation, rather, the funds are transferred from other accounts.

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/CMHI) and the General Insurance/Special Risk Insurance fund account (GI/SRI). The MMI/CMHI 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.

Table 18. Federal Housing Administration, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request^a	FY2006 House	FY2006 S. Comm.
Total FHA Appropriations	-\$1,724,436	-\$856,300	-\$913,300	-\$913,300
Expenses - MMI	432,419	436,600	418,600	418,600
Offsetting Receipts - MMI	(2,234,000)	(1,309,000)	(1,309,000)	(1,309,000)
Net Appropriations - MMI	-\$1,801,581	-\$872,400	-\$890,400	-\$890,400
Expenses - GI/SRI	352,145	316,100	316,100	316,100
Offsetting Receipts - GI/SRI	(248,000)	(300,000)	(339,000)	(339,000)
Net Appropriations - GI/SRI	\$77,145	\$16,100	-\$22,900	-\$22,900

Source: See Table 2.

a. Note that the President's request numbers are taken from the Appropriations Committee's re-estimate of the President's budget as shown in tables provided in H.Rept. 109-153 and S.Rept. 109-109.

As shown in **Table 18**, FHA has negative appropriations, which means that the income to the program from insurance premiums exceeds the program expenses. This suggests that, because of the surplus generated by FHA, HUD needed \$1,724 million less in appropriations in FY2005.

The negative appropriation has implications for two legislative initiatives that have been proposed by the Administration. One initiative would permit 100% FHA financing for first-time buyers with strong credit records. Under the other initiative, HUD would amend its underwriting guidelines in order to permit borrowers with blemished credit records to obtain FHA-insured loans. The FHA insurance premiums for these borrowers would be increased to cover the higher risks and costs involved in these initiatives. The President's budget assumed that these initiatives would create \$268 million in additional negative appropriations in FY2006. The budget also assumed that the MMI and GI/SRI programs would generate \$1,956 million in offsetting receipts. Based on its assumptions of income, costs, and fees to the insurance funds, the Administration estimated net FHA appropriations of \$-1,489 million for FY2006. The Appropriations Committee, however, did not accept the Administration's assumptions. The Committee's re-estimate (shown in **Table 18** as

the FY2006 request) assumes zero savings from the proposed initiatives, and it assumes \$347 million less in offsetting receipts.

Both House and Senate versions of H.R. 3058 assume lower administrative expenses in the MMI account and lower offsetting receipts in the GI/SRI account than presented in the President's request. As a result, the committees are able to realize greater savings than the re-estimate of the President's budget would have allowed, although notably less than in the President's original budget and less than was available in FY2005. As shown in **Table 18**, the committees' assumptions result in an estimated appropriation of \$-913 million. The decrease in FHA net income implies a need for an additional \$811 million in appropriations to support other HUD programs at the same level as FY2005.

Office of Federal Housing Enterprise Oversight (OFHEO). OFHEO is the office within HUD which is responsible for regulating Fannie Mae and Freddie Mac regarding the safety and soundness of their operations. The appropriations for OFHEO are completely offset by fees collected from Fannie Mae and Freddie Mac. In recent years there has been criticism that OFHEO has been ineffective in its role. The Administration expects that the resources of OFHEO will be transferred to a strengthened regulator that will be proposed.

Fair Housing. The Office of Fair Housing and Equal Opportunity enforces the Fair Housing Act and other civil rights laws that make it illegal to discriminate in the sale, rental, or financing of housing based on race, color, religion, sex, national origin, disability, or family status. This is accomplished through the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP). FHAP provides 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. 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 19. Fair Housing Programs, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm.
Fair Housing	\$46,128	\$38,800	\$46,500	\$46,000
Fair Housing Assistance	26,288	22,700	26,500	25,000
Fair Housing Initiatives	19,840	16,100	20,000	21,000

Source: See Table 2.

The President's budget recommended decreases in funding for both Fair Housing programs in order to provide needed funding for the tenant-based Section 8 voucher program. FHAP would be reduced 14% from its FY2005 level and FHIP would be reduced 19%. H.R. 3058, as reported by the House Appropriations Committee, adopted the President's funding request. An amendment by the full House increased funding for the program to a slight increase over the FY2005 level.

The increase was offset by a reduction of \$7.7 million from the information system budget of the IRS. The Senate Appropriations Committee's version of H.R. 3058 increases funding for fair housing activities above the President's requested level, but provides less than was appropriated in FY2005 and what was recommended by the House.

Lead-Based Paint Hazard Reduction. The Office of Lead Hazard Control at HUD administers both the Lead-Based Paint Hazard Control Grant Program and the Healthy Homes Initiative (HHI), designed to reduce the hazards of lead-based paint in homes.

Table 20. Lead-Based Paint Hazard Control, FY2005 to FY2006
(in thousands)

	FY2005 enacted	FY2006 request	FY2006 House	FY2006 S. Comm
Office, lead hazard control	\$166,656	\$119,000	\$166,656	\$167,000

Source: See Table 2.

For FY2006, the Administration proposed a funding level of \$116 million for the Healthy Homes and Lead Hazard Control Reduction program. This \$48 million (29%) reduction from the FY2005 level is largely the result of proposing zero funding for the Lead Hazard Demonstration program, which was funded at \$47 million in FY2005. The justification for this reduction is that the funds are needed instead for the Section 8 voucher program. H.R. 3058, as reported by the House Appropriations Committee, adopted the President's funding request. During full House debate on the bill, a floor amendment was adopted that restored funding to the level enacted in FY2005. The Senate Appropriations Committee-passed bill proposes to fund the account slightly above the FY2005 level.