

# FISCAL YEAR 2003 BUDGET SUMMARY

## Executive Summary

For FY 2003, the President has proposed a budget for the Department of Housing and Urban Development that provides nearly \$2.1 billion more than the \$29.4 billion in new non-emergency budget authority appropriated for FY 2002, to promote homeownership among low-income and minority families, expand the number of families served by HUD's rental subsidy programs, and cover the increased costs of HUD's existing housing and community development programs.

The FY 2003 budget builds upon the successes achieved by HUD and the Administration in the previous fiscal year by creating new homeownership opportunities, particularly for minorities; increasing the supply of affordable housing; providing more protections for vulnerable populations, such as homeless individuals, people with disabilities, and the elderly; emphasizing community renewal and neighborhood redevelopment; and rallying the President's armies of compassion to better serve the less fortunate.

In striving to help even more Americans, the overall FY 2003 budget provides \$31.5 billion in funding. These funds support seven main activities:

- I Expanding Homeownership
- II Ensuring Affordable Rental Housing Opportunities
- III Helping Individuals Achieve Self-Sufficiency
- IV Supporting Community and Economic Development
- V Protecting Vulnerable Populations
- VI Enforcing Fair Housing Laws
- VII Ensuring Responsible HUD Staffing and Program Management

**I. Expanding Homeownership.** Homeownership plays a vital role in creating strong communities by giving families a stake in their neighborhoods and creating wealth. One of HUD's primary goals is to help more families achieve homeownership, particularly minority families. In addition to programs such as the HOME Investment Partnerships Program and Federal Housing Administration (FHA) mortgage insurance, HUD plans to expand its efforts to promote homeownership in FY 2003 through the following initiatives:

- *The American Dream Downpayment Fund* will provide \$200 million within the HOME program to help families achieve homeownership by overcoming the significant obstacle presented by high downpayments.

- ***Self-Help Homeownership Opportunity Program (SHOP).*** HUD will triple the funding to \$65 million to support self-help organizations such as Habitat for Humanity and the sweat equity construction of approximately 3,800 homes for low-income families.
- ***HOME Investment Partnerships program.*** In FY 2003, a total of \$2.1 billion is provided to participating jurisdictions (states, units of local government and consortia) to help rehabilitate owner-occupied buildings and provide assistance to new homebuyers.
- ***Section 8 Homeownership.*** HUD will continue to work to increase Public Housing Authorities' (PHAs) use of Section 8 funds as downpayment assistance. Instead of using a voucher for rental assistance, individuals already receiving assistance through the Section 8 voucher program can use up to a year's worth of funds as downpayment to purchase a home. PHAs already have the authority to use Section 8 monthly rental assistance for mortgage subsidy rather than rental subsidy.
- ***Housing Counseling.*** Counseling has proven to be an extremely important element in protecting both homebuyers and renters by helping them become better-educated housing consumers, and can result in reduced defaults and foreclosures. The FY 2003 budget will expand funds for counseling services from \$20 million to \$35 million, and will for the first time establish counseling as a separate program rather than a set-aside within the HOME program.

**II. Ensuring Affordable Rental Housing Opportunities.** Homeownership is an important goal, but HUD recognizes that homeownership may not be an option for everyone. The FY 2003 budget reflects the need to expand the availability of affordable *rental* housing, and ensure quality and options for residents. The following are some of the key features of the FY 2003 budget that help families afford the costs of rental housing:

- ***Section 8 Contract Renewals.*** In FY 2003, HUD will provide \$16.9 billion to renew all expiring Section 8 contracts. As long-term Section 8 contracts expire, the number of contracts that need to be renewed each year (and the funding required to do so) increases. The FY 2003 budget will pay for the cost of renewing 2.9 million expiring Section 8 contracts.
- ***Section 8 Incremental Vouchers.*** The FY 2003 budget includes \$204 million in funding for approximately 34,000 additional housing vouchers. This increase is nearly double the 18,000 new rental vouchers provided in FY 2002. These vouchers will be targeted to specific uses, including downpayment assistance for homeownership, and to specific populations, such as homeless veterans, homeless, families transitioning to self-sufficiency, non-elderly disabled individuals, and persons with mental disabilities.

- *Public Housing Operating Fund.* The FY 2003 budget proposes more than \$3.5 billion for the Public Housing Operating Fund, to help PHAs provide maintenance, utilities, protective and other services to residents.
- *FHA Multifamily Mortgage Insurance.* The mortgage insurance premium for FHA's basic multifamily insurance program, Section 221(d)(4), will be reduced from 80 basis points to 57 basis points. This will increase the production of moderate-income rental housing in underserved areas.
- *Low-Income Housing Tax Credit.* One of the major Federal programs that finances new and rehabilitated affordable rental housing is the Low-Income Housing Tax Credit. In 2001, the tax credit supported an estimated 75,000 rental units; the recent 40 percent increase in the tax credit is expected to support the production of about 100,000 units of low- to moderate-income rental housing each year.

**III. Helping Individuals Achieve Self-Sufficiency.** Central to HUD's mission of strengthening and renewing communities are activities to help low-income working families acquire skills that will increase their earnings and move them toward self-sufficiency. HUD also seeks to help low-income families accumulate assets so that they can achieve homeownership, pursue educational opportunities, start new businesses and reach other important goals. HUD's basic programs contribute to this objective by providing low-income families with the housing stability they need to secure a job and increase their earnings.

Key initiatives for FY 2003 include:

- *Family Self-Sufficiency (FSS) program.* In FY 2003, HUD will provide \$52 million (within the Housing Certificate Fund) to continue and expand the FSS program. Currently serving over 60,000 families in the tenant-based Section 8 and public housing programs. FSS is HUD's chief asset-building program. In FY 2003, HUD will work to expand participation in FSS by providing funds for service coordinators, helping to spread awareness of successful practices and promoting partnerships between local housing and welfare agencies.
- *Neighborhood Networks Initiative.* For FY 2003, HUD will provide \$20 million (\$15 million from the Public Housing Capital Fund and \$5 million from the HOPE VI program) to help create or expand computer technology centers in public housing facilities or nearby community facilities.
- *Resident Opportunity and Self-Sufficiency (ROSS) program.* HUD will continue to support the ROSS program – which links residents in public housing with local self-sufficiency assistance programs – at \$55 million, as it has done since 1999. However, beginning in FY 2003, the program will be funded out of the Public Housing Capital

Fund rather than as a set-aside in the Community Development Block Grant program, because ROSS is primarily for Public and Native American Housing residents.

**IV. Supporting Community and Economic Development.** In FY 2003, HUD will continue to support its core community and economic development programs. These programs play an essential role in helping communities address locally determined community and economic development priorities, development priorities and maintain long-term prosperity. Highlights include:

- *Community Development Block Grant (CDBG) program.* CDBG provides funding to meet locally identified community and economic development needs. For FY 2003, HUD will fund CDBG formula grants at \$4.436 billion, an increase of \$95 million. HUD will also propose to reduce the size of grants to communities with per-capita income two times the national average – the wealthiest grant recipients – and redirect those resources to poorer communities.
- *Faith-Based and Community Initiatives.* Across the country, groups and organizations at the grassroots level are providing critically important charitable work that supports Americans in need. HUD has a long history of working in partnership with the nation’s community caretakers. In FY 2003, HUD will continue to examine its programs and policies to identify ways to strengthen the ability of nonprofit groups to help, and to reduce the barriers that impede their access to HUD funding.
- *Colonias Gateway Initiative.* The FY 2003 budget proposes \$16 million for a new Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on the rural communities and neighborhoods – the *colonias* – located along the 1,500-mile stretch of border in the southwestern U.S. that frequently lack adequate infrastructure and other basic services.
- *Brownfields Economic Development Initiative (BEDI).* BEDI makes competitive economic development grants for the economic development, redevelopment and remediation of qualified brownfields projects. In FY 2003, the Department will award \$25 million in grants, the same level awarded in FY 2002. HUD will propose decoupling the brownfields program from the Section 108 loan guarantee program to attract more participants. HUD also intends to work closely with the Environmental Protection Agency (EPA) to more effectively integrate efforts to revitalize brownfields sites.

**V. Protecting Vulnerable Populations.** HUD programs provide housing and other essential support to a wide range of populations with special needs, including the elderly, disabled persons, homeless persons, and individuals with HIV/AIDS. The following are highlights of HUD’s FY 2003 budget in this area:

- *Elderly Housing and Services.* For FY 2003, HUD will continue its support for older Americans by providing \$783 million for the Section 202 supportive housing for the elderly program.
- *Persons with Disabilities.* The FY 2003 budget provides \$251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities.
- *Persons with HIV/AIDS.* In FY 2003, HUD will increase funding for the Housing Opportunities for Persons with AIDS (HOPWA) program by \$15 million, to \$292 million. This will support an increase in the number of jurisdictions eligible for funding based on projections from the Centers for Disease Control and Prevention.
- *Homeless Individuals.* In FY 2003, HUD is embarking upon a major initiative to more effectively address the challenge of combating homelessness and invest in permanent solutions that decrease the number of homeless men, women, and families. To achieve this goal, several changes to various programs are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that actually administer to homeless people.
  - Reactivation of the Interagency Council on the Homeless will provide better coordination of the many programs in the Departments of Housing and Urban Development (HUD), Health and Human Services (HHS), Veterans Affairs (VA), Labor and other Federal agencies that are directly available to homeless individuals. The Department will provide \$1 million to operate the Interagency Council, double the FY 2002 amount.
  - Consolidating three competitive homeless assistance programs to provide more consistent funding and eliminate the burden of administering the current competitive programs.
  - The President will propose legislation that would transfer the *Emergency Food and Shelter (EFSP)* program that is currently administered by the Federal Emergency Management Agency (FEMA) to HUD.

The budget also supports the *Manufactured Housing Standards* program and provides \$126 million for the *Lead-Based Paint* program, of which \$10 million is for the *Healthy Homes* initiative.

**VI. Enforcing Fair Housing Laws.** The fabric of this nation is the rich diversity of the American people, and a person's right to live in the home of his or her choice without fear of discrimination or intimidation is paramount. Within the FY 2003 budget, HUD will have the tools it needs to help Americans receive fair and equal access to housing. The FY 2003 budget allocates \$25.7 million for the *Fair Housing Assistance Program*

(FHAP) and \$20.3 million for the *Fair Housing Initiatives Program* (FHIP). The Department also plans to continue its efforts to combat predatory lending.

**VII. Ensuring Responsible HUD Staffing and Program Management.** HUD continues to make real management reforms one of its top priorities for FY 2003. Under the Secretary's leadership, the Department will review staffing levels to align staff with program needs. The Department also is committed to implementing the President's Management Agenda, which addresses chronic management weaknesses.

## I. EXPANDING HOMEOWNERSHIP

The Administration is dedicated to helping families realize the American Dream by making the move from renting to homeownership. When citizens become homeowners, they become stakeholders in their communities. By increasing the ranks of stakeholders, communities enjoy increased stability and benefit from a new spirit of revitalization.

Homeownership also builds financial security for families. A home is the largest purchase most Americans will ever make, but it is a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and FY 2002 budget initiatives focused on promoting homeownership, more Americans were homeowners in 2001 than at any time in this nation's history. The nation's overall homeownership rate for 2001 stood at 67.8 percent, nearly half a percentage point higher than the 2000 rate.

Unfortunately, minority and low-income Americans are not sharing equally in the housing boom. Minorities (African-Americans, Hispanics, and other non-Hispanic minorities) did make record homeownership gains in 2001, to 49 percent, yet they continue to lag far behind the population as a whole.

The Administration is focused on giving more Americans the opportunity to own their own home, especially those who have been shut out in the past. HUD is proposing several new or expanded initiatives in FY 2003 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates. This will also help in central cities, where the homeownership rate is only 51.9 percent. The budget also supports HUD's efforts to make the homebuying process simpler, clearer and less expensive – and less of a target of predatory lenders – through comprehensive reform.

### LOW-INCOME HOMEOWNERS ASSISTANCE PROGRAMS

- ***American Dream Downpayment Fund.*** Introduced in FY 2002, this program targets funding under the HOME program specifically to low-income families in cities. The FY 2003 budget quadruples the Fund by providing \$200 million in FY 2003 to assist low-income families with their downpayment on a home.
- ***Self-Help Homeownership Opportunity Program (SHOP).*** SHOP provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. On May 20, 2001, the President announced that he would triple the \$22 million provided in 2002 to self-help housing organizations such as Habitat for Humanity, to \$65 million in the FY 2003 budget. These funds will help produce approximately 3,800 new homes nationwide for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant program.

- ***Section 8 Homeownership.*** HUD will continue to work to strengthen the ability of PHAs to use Section 8 funds as downpayment assistance for individuals already receiving assistance through the Section 8 voucher program. Instead of using a voucher for rental assistance the individual can use up to on 1 year's worth of voucher funds as downpayment to purchase a home. The costs would remain unchanged. PHAs already have the authority to use Section 8 monthly rental assistance for mortgage subsidy rather than rental subsidy.
- ***Housing Counseling.*** Counseling has proven to be an extremely important element in both the purchase of a home and in keeping a home in times of financial stress. The 2003 budget will expand funds for counseling services from \$20 million to \$35 million and will establish counseling as a separate program rather than a set-aside within the HOME program. This also increases the freedom of local governments to spend HOME funds to meet their perceived needs.

## **HOME INVESTMENT PARTNERSHIPS PROGRAM**

The HOME program plays a key role in addressing the shortage of affordable housing in America. In 2003, a total of \$2.084 billion is being provided to participating jurisdictions (states, units of local government, and consortia) to expand affordable housing. Specifically, the funds will help to expand and improve homeownership by rehabilitating owner-occupied buildings and by providing assistance to new homebuyers. Based on historical trends, 36 percent of the funds will be used for new construction, 47 percent for rehabilitation and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing downpayment and closing costs, as well as the costs of acquisition, rehabilitation and new construction. To date, HOME grantees have committed funds to provide homeownership assistance to more than 320,000 low-income households.

## **FEDERAL HOUSING ADMINISTRATION (FHA)**

FHA is the Government's largest single program to extend access to homeownership to individuals and families who lack the savings, credit history or income to qualify for a conventional mortgage. In 2001, FHA insured \$117 billion in mortgages for over 1 million households, most of them first-time homebuyers, which represents a 25 percent increase over the previous year. Thirty-six percent of FHA homebuyers were minority households in 2001.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures home rehabilitation loans, condominium loans, energy efficiency loans and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

FHA also insures mortgages on multifamily rental housing projects. In FY 2003, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), from 80 basis points to 57 basis points. With this reduction, the Department estimates that it will insure \$3.5 billion in apartment development loans through this program, for the annual production of an additional 50,000 new rental units – most of which will be affordable to moderate-income families, and most of which will be located in underserved areas. Additionally, by eliminating the need for appropriated subsidies, FHA will avoid the uncertainty and the program suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving non-profit developers, nursing homes, and refinance credit, FHA anticipates providing support for a total of 135,000 housing units.

FHA also provides mortgage insurance for specialized programs such as nursing homes, assisted living facilities and hospitals. This insurance allows the construction of these much-needed facilities in areas where there is limited credit available through the private sector because of perceived risk.

*FHA Loss Mitigation* activities will continue to expand in order to minimize FHA claims and property disposition costs. Loss mitigation also keeps families in their homes rather than having properties go to foreclosure and sale, saving FHA the management and marketing costs associated with foreclosed properties.

The *FHA Neighborhood Watch* program helps homeowners to help themselves by providing an Internet lender monitoring service that allows prospective buyers an opportunity to track the performance of lenders in the area being considered.

The *TOTAL Scorecard* will enable FHA lenders to assess the risk of default on a mortgage within their own automated underwriting systems. TOTAL (Technology Open To All Lenders) will facilitate prompt approval of loans for insurance. FHA will continue to evaluate the most effective means of using this technology to increase the availability of mortgage credit to underserved populations.

In 2003, FHA will begin to move out of the single-family property management business and accelerate the claims process by taking mortgage notes rather than requiring lenders to foreclose and transfer single-family properties to FHA. FHA will sell defaulted notes to the private sector for servicing and or disposition, thereby eliminating most of the real property that FHA currently acquires.

## **GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE)**

Through its mortgage-backed securities program, Ginnie Mae helps to ensure mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as the VA and the Rural Housing Service of the U.S. Department of Agriculture (USDA). Through its guarantee, Ginnie Mae kept financial capital available

in the mortgage industry, which has supported homeownership for approximately 25 million families.

In addition to its normal pass-through of pooled mortgages, Ginnie Mae operates a Targeted Lending Initiative in which the guaranteed fee it charges lenders is reduced in any of the nation's 72 Empowerment Zones, Enterprise Communities and adjacent central city areas. Since its inception in 1996, this incentive has provided over \$16 billion to finance more than 171,000 loans in central cities.

## **OVERSIGHT OF FANNIE MAE AND FREDDIE MAC**

To augment the amount of mortgage credit available to low- and moderate-income families, HUD is responsible for setting affordable housing goals for two other key institutions that play a vital role in financing affordable owner-occupied and rental housing throughout the nation: Fannie Mae and Freddie Mac. Along with Ginnie Mae, these Government-Sponsored Enterprises (GSEs) are the major participants in the secondary market. HUD has oversight responsibilities for establishing Fannie Mae's and Freddie Mac's affordable housing goals and for monitoring their progress toward achieving those goals. For FY 2003, HUD will expand and be more aggressive in its oversight activities, which will include:

- setting, monitoring and enforcing the GSEs' goals for the purchases of mortgages made to low- and moderate-income families, mortgages on properties located in underserved areas and mortgages made to low- and very low-income families in low-income areas, including mortgages on multifamily properties;
- reviewing the GSEs' requests for approval of new programs;
- reviewing and commenting on the GSEs' underwriting guidelines to ensure their consistency with fair housing laws;
- continuing to release an annual public use database on the GSEs' mortgage purchases and reports and research on GSEs' activities.

## **RESPA REFORM AND PREDATORY LENDING**

HUD is taking bold steps to eliminate predatory lending and comprehensively reform and simplify the homebuying process. New disclosure requirements under the Real Estate Settlement Procedures Act (RESPA) will call for full, upfront disclosure and explanation of all fees that buyers pay at settlement, making it clear to the borrower what options are available for financing a home. These actions will be coupled with stronger outreach and education on new regulations and policies.

## **HOMEOWNERSHIP PROGRAMS FOR NATIVE AMERICAN AND HAWAIIAN COMMUNITIES**

The FY 2003 budget supports four HUD programs that help to promote homeownership in Native American and Hawaiian communities:

- ***Native American Housing Block Grants (NAHBG)***. Operating in tandem with the Public Housing Operating and Capital Funds, the IHBG provides funds to tribes and to tribally designated housing entities (TDHEs) for a wide variety of operating and maintenance expenses. Grants are awarded on a formula basis that was established through a negotiated rule with the tribes. However, unlike public housing funds, the NHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; and administration of the units.

Also included in this request is \$2 million in credit subsidy for the Title VI Indian Federal Guarantee program. This is less than appropriated in FY 2002 due to the lower than anticipated level of loan applications. The program allows recipients of the block grant funds to supplement their annual grant by obtaining additional private financing for a wide variety of eligible affordable housing activities.

- ***The Title VI Tribal Activities Loan Guarantee*** program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable housing activities but cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in 2003 is reduced from \$6 million to \$2 million and the loan amount supported is reduced from \$53 million to \$17 million. Prior year funds remain available until used.
- ***The Indian Housing Loan Guarantee (Section 184)*** program helps Native Americans to access private mortgage financing for the purchase, construction or rehabilitation of single-family homes. The program provides guarantees and payments to lenders. In 2003, \$5 million is requested in credit subsidy for 100 percent Federal guarantees of approximately \$200 million in private loans.
- ***Native Hawaiian Home Loan Guarantee Fund***. The Hawaiian Homelands Homeownership Act of 2000 established a loan guarantee program, modeled after the Indian Home Loan Guarantee program (Section 184). The guarantees will be used to secure private financing to purchase, construct or rehabilitate single-family homes on Hawaiian Home Lands. It makes possible the financing of home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The 2003 budget will provide \$1 million in credit subsidy to secure approximately \$40 million in private loans.
- ***Native Hawaiian Housing Block Grant (NHHBG)***. Modeled after the NAHBG, the Native Hawaiian Housing Block Grant is a new program to implement the Hawaiian Homelands Homeownership Act of 2000. This new authorization recognizes the

documented housing needs of native Hawaiians who are eligible to reside on or who already live on Hawaiian Home Lands. Native Hawaiians experience the worst housing conditions in the State and constitute nearly 30 percent of the homeless population.

The FY 2003 budget will provide \$10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction and rehabilitation. Activities will include real property acquisition, demolition, financing, development of utilities and utility services as well as administration and planning.

## II. ENSURING AFFORDABLE RENTAL HOUSING OPPORTUNITIES

Because homeownership is not an option for everyone, HUD is working to meet another central challenge: helping families who rent either out of necessity or by choice find affordable and decent housing. A number of critical HUD programs are dedicated to expanding affordable rental housing opportunities and ensuring quality and options for residents.

HUD annually provides rental subsidies to over 3 million households nationwide living in private housing, and the number of families assisted is growing each year. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance and modernization of an additional 1.25 million public housing units. In total, these programs will provide over \$23 billion in new funds each year to support rental costs for low-income individuals and families – approximately 75 percent of the total budget for the Department in 2003.

*HUD has three major rental assistance programs that collectively provide rental subsidies to more than four million households nationwide: the Section 8 voucher program (also known as the tenant-based Section 8 program), the project-based Section 8 program, and public housing. The budget funds the two Section 8 programs under a single account, known as the Housing Certificate Fund (HCF). The public housing program is funded through the Public Housing Operating Fund, the Public Housing Capital Fund, and the HOPE VI program, which provides funding to support the demolition and revitalization of distressed public housing.*

HUD also helps to provide affordable rental housing through the HOME program, the Native American Housing Block Grant, FHA mortgage insurance and the Community Development Block Grant (CDBG) program.

***Housing Certificate Fund (HCF).*** The Housing Certificate Fund is the largest source of funding for rental assistance in the Federal Government. It funds most of the Section 8 program tenant-based vouchers and project-based contracts.

In FY 2003, the total cost of running the Section 8 program is \$17.527 billion, more than 56 percent of the entire HUD budget. The cost is expected to rise to \$18.8 billion by 2005. In total, the 2003 HCF will subsidize 3,455,384 units.

***Section 8 Contract Renewals.*** In 2003, the Department will require \$16.863 billion in funds to renew existing Section 8 subsidies. HUD will renew contracts with the PHAs, who administer the tenant-based voucher program on HUD's behalf, and contract with individual project owners, to continue the subsidy on 2,898,255 units under the Section 8 program. As

a general rule, tenants receiving assistance will pay about 30 percent of their income toward rent and utilities, with HUD providing the subsidy for the difference between that amount and the rent plus utilities.

Of those amounts, \$4.320 billion will be for 817,274 project-based units at an average cost of \$5,286 per unit for the year and \$12.474 billion is for 2,077,336 tenant-based vouchers at an average subsidy of \$6,005 for each voucher for the year.

**Section 8 Incremental Vouchers.** Although HUD currently assists nearly 2 million units under the tenant-based Section 8 program, the number of families in need of assistance remains far greater. To help reduce the backlog of families on the waiting list, HUD is requesting that Congress provide an additional \$204 million to increase the number of tenant-based vouchers by 34,000. This increase is nearly double the 18,000 incremental vouchers provided in FY 2002.

The Department is taking steps to ensure that these new vouchers are fully utilized by the PHAs. Incremental vouchers will only go to PHAs that have demonstrated an ability to use their existing vouchers. Specifically, they will only be available to PHAs that have used 97 percent of their existing vouchers. Congress gave HUD this authority beginning in FY 2002. The vouchers will be targeted to specific uses, including downpayment assistance for homeownership, and to specific populations, including homeless veterans, homeless, families transitioning to self-sufficiency, non-elderly disabled individuals, and persons with mental disabilities.

In addition, funds are provided for several other forms of assistance that are all related to the Section 8 program. These include:

- **Tenant Protection Vouchers.** In FY 2003, HUD anticipates that \$260 million will be needed to provide 43,300 vouchers to individuals who are currently receiving subsidized rent but who are threatened with the loss of that subsidy.

Tenants who are currently receiving assistance and who through no fault of their own would be forced to vacate their units are provided vouchers to seek another unit or remain in place. A typical example would be the demolition of public housing units currently occupied by tenants. In addition, tenants who are in subsidized, project-based units where the owner either opts out of the program or is terminated for cause, also receive vouchers to continue their subsidy. In the case of opt-outs, the tenant may be given a special “enhanced voucher” that enables the individual or family to remain in their unit and the subsidy amount is increased to meet the new rent level set by the owner.

- **Family Unification Program (FUP).** Often, the lack of income sufficient to meet the rent is the key reason threatening to break up a family and force the removal of the

children to foster care. The FUP program will provide qualified families with a Section 8 voucher so that the family can afford the rent for a safe and decent place to live and stay together. Since 1992, HUD has provided over 36,000 FUP vouchers to housing agencies that work in partnership with child welfare agencies, helping more than 50,000 families nationwide.

- **Contract Administration.** While PHAs administer the tenant-based Section 8 program, HUD has contracts with the state and local housing agencies to administer the project-based program. Acting as HUD’s agent, the contractors oversee the nearly 20,000 contracts that HUD has with individual project owners. Oversight includes both examination and inspection of the physical condition of the units receiving subsidy and the overall financial integrity of the project. In FY 2003, \$196 million in fees will be paid to the housing agencies to act as HUD’s agent.

**Table 1**  
**HOUSING CERTIFICATE FUND**  
(Budget Authority in Millions)

	2002		2003		2003 vs. 2002	
	Units	BA	Units	BA	Units	BA
Section 8 Contract Renewal	2,744,557	15,085	2,898,255	16,863	153,698	1,778
Tenant Protection Assistance	30,300	203	43,300	260	13,000	57
Incremental Vouchers	18,000	104	34,000	204	16,000	100
Contract Administrator	NA	196	NA	196	NA	...
Working Capital Fund	NA	13	NA	3	NA	(10)
<b>Total, Housing Certificate Fund *</b>	<b>2,800,757</b>	<b>15,641</b>	<b>2,975,555</b>	<b>17,526</b>	<b>174,798</b>	<b>1,885</b>

\* Includes \$40 million for 7,900 non-elderly disabled vouchers that are part of incremental vouchers in 2003.

## **PUBLIC HOUSING**

Public Housing is the other major form of assistance that HUD provides to the nation’s low-income population. In FY 2003, HUD anticipates that there will be approximately 1.25 million public housing units occupied by tenants. These units are under the direct management of 3,050 public housing authorities (PHAs). Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities and HUD subsidies cover the remaining operating costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included in the FY 2003 budget (See below). This will allow for the acceleration of the reduction in backlog of modernization

requirements in public housing facilities across the nation.

***Public Housing Operating Fund.*** The formula distribution of funds takes into account the size, location, age of public housing stock, occupancy and other factors intended to reflect the real costs of operating a well-managed public housing development. In FY 2003, HUD will increase the amounts provided for operating subsidies from \$3.495 billion to \$3.530 billion.

***Public Housing Capital Fund.*** This program provides formula grants to PHAs for the major repairs and modernization of its units. The FY 2003 budget will provide \$2.426 billion in modernization funds to the PHAs. This amount is sufficient to meet the accrual of new modernization needs in 2003, and takes into account PHAs ability to use billions of dollars already appropriated as well as a new mechanism to leverage private capital which is described below. The potential leveraging will allow capital work to be done at a level that is considerably greater than the level funded in FY 2002. To the extent that the pilot initiative does not generate at least \$400 million in capital improvements, HUD will seek to restore the reduction of funds to the previous year's level in FY 2004.

Of the funds made available, up to \$75 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$15 million can be used to implement the Neighborhood Networks Initiative, which provides computer learning skills in PHA facilities or the surrounding area. Also in FY 2003, up to \$55 million will be available for the Resident Opportunity and Self-Sufficiency (ROSS) program, which provides supportive services and assists residents in becoming economically self-sufficient.

***Public Housing Financial Reform.*** To address the backlog of capital needs, the Department is including a new legislative proposal in its 2003 budget that will allow PHAs to use a portion of their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative will encourage development-based financial management and accountability in PHAs.

These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will also allow the PHAs to secure private financing to rehabilitate or replace their aging properties by pledging the voucher project-based revenue as collateral for private loans for capital improvements.

The FY 2003 budget proposes that up to \$130 million of the amounts appropriated to the Operating Fund, up to \$120 million of the amounts appropriated to the Capital Fund be allowed for this initiative. Funds may be used for the initial year of any contract for project-based voucher assistance or for other purposes that are necessary to secure the private financing, such as credit enhancement. In addition, up to \$50 million in HOPE VI funds could be used for necessary capital and supplemental capital amounts.

**Revitalization of Severely Distressed Public Housing (HOPE VI).** The FY 2003 budget includes \$574 million for the HOPE VI program, the same level that was appropriated in 2002 and 2001. Grants are awarded competitively to PHAs to address developments that are beyond repair. Funds are used to demolish those units provide for replacement housing and site renovation and revitalize the communities in which they are located. Often, the demolished units are replaced by mixed-income, mixed-finance developments. The grants also provide the initial year of funding for Section 8 tenant-based vouchers to residents who are displaced by the demolition. The renewal of the Section 8 voucher is funded in the Housing Certificate Fund. In addition, over 9 percent of the funds awarded to date have been used for community services and self-sufficiency activities, in order to meet the social and economic needs of the residents. Of the total provided for the HOPE VI program, \$6.25 million will be used for technical assistance, and \$5 million for the Neighborhood Networks Initiative.

**Table 2**  
**PUBLIC HOUSING**  
(Dollars in Millions)

	2002	2003	Difference
Operating Subsidies	3,495	3,530	+35
Public Housing Capital Fund	2,843	2,426	-417
Leverage Funding Financing Initiative	...	[417]	[417]
Total, Public Housing Capital Fund Resources	2,843	[2,843]	[...]
Revitalization of Severely Distressed Public Housing (HOPE VI)	574	574	0

The Department has approved the demolition of about 135,000 obsolete and distressed units, of which 70,000 have been approved under the HOPE VI program. To date, 70,000 units have actually been demolished, 47,268 of which were demolished under the HOPE VI program. HOPE VI funds are highly leveraged with private and other public funding and the amount of leveraging has increased each year. Leveraging HOPE VI dollars is an important element in the competition for grant dollars. In FY 2003, the grantees are estimated to secure \$3.57 in non-HOPE VI funds for every HOPE VI dollar awarded. Although the program is scheduled to sunset at the end of 2002, over the next few months the Administration will be proposing legislation to reauthorize HOPE VI. Therefore, the request for FY 2003 will continue the main goals of the program.

**OTHER RENTAL ASSISTANCE PROGRAMS**

**HOME Investment Partnerships program.** In addition to the extensive use of HOME funds to provide affordable homes for homeownership, the HOME program has invested heavily in the creation of new affordable housing for low-income renters as well. The program has, in

fact, supported the building, rehabilitation, and purchase of multifamily rental properties. Grantees that receive HOME funds, for example, have to date committed funds to support the construction, rehabilitation or acquisition of more than 250,000 rental units and have provided direct rental assistance to more than 73,000 households.

***Native American Housing Block Grant (NAHBG).*** This block grant is a flexible source of funding to tribes or tribally designated entities and is used for a wide variety of affordable housing activities. Authorized uses include both rental and homeownership. The block grant is funded at \$647 million in FY 2003.

***Native Hawaiian Loan Guarantee Fund.*** The Hawaiian Homelands Homeownership Act of 2000 established a loan guarantee program, modeled after the Indian loan guarantee program (Section 184). The guarantees will be used to secure private financing to purchase, construct or rehabilitate single-family homes on Hawaiian Home Lands. It makes possible the financing of home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The 2003 budget will provide \$1 million in credit subsidy to secure approximately \$40 million in private loans.

***Native Hawaiian Housing Block Grant (NHHBG).*** The Native Hawaiian Housing Block Grant is a new program to implement the Hawaiian Homelands Homeownership Act of 2000. The 2003 Budget will provide \$10 million. This new authorization recognizes the documented housing needs of native Hawaiians who are eligible to reside on or who already live on Hawaiian Home Lands

Several other HUD programs contribute to rental assistance, although not as a primary purpose. The flexible Community Development Block Grant also is used to support rental housing activities.

### III. HELPING INDIVIDUALS ACHIEVE SELF-SUFFICIENCY

A compassionate nation must ensure that those Americans served by HUD – the majority of whom are struggling families, or individuals facing a trying time in their lives – live in a healthy and secure environment and have access to the tools and opportunities that will help them move toward self-sufficiency. HUD’s basic programs contribute to this goal by providing individuals and families with the housing and services that allow them to focus on recovery, job-related skill development, and obtaining work or increasing income.

Key initiatives for FY 2003 include:

- ***Neighborhood Networks Initiative.*** HUD has helped to create over 700 computer technology centers in multifamily assisted housing developments and HOPE VI sites throughout the country. Hundreds of other centers operate in public housing facilities and Native American Housing. In FY 2003, HUD is providing \$20 million in new funding (\$15 million under the Public Housing Capital Fund and \$5 million under the HOPE VI program) to accelerate the Neighborhood Networks program to create more centers in public housing facilities or nearby community facilities. HUD will also continue to support the companion program development of Neighborhood Network centers in multifamily assisted housing projects.
- ***Family Self-Sufficiency (FSS) program.*** In FY 2003, the Department will provide \$52 million (within the Housing Certificate Fund) to continue and expand the FSS program. The FSS program is designed to link families with local opportunities for education, job training and counseling while receiving housing assistance. Over a 5-year period, as income grows, the increased income that goes to rent is deposited into an escrow account to purchase a home, pay for higher education, or even start a business. Currently, the FSS program serves over 55,000 families in the tenant-based Section 8 and public housing programs.
- ***Resident Opportunity and Self-Sufficiency (ROSS) program.*** As it has since 1999, the Department will provide \$55 million in funds to support the ROSS program for residents of Public and Native American Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency. The program is intended to improve linkages to public housing residents by implementing supportive services and resident empowerment activities and assisting residents to become economically self-sufficient. The specific activities authorized include physical improvements, academic skills, training, resident management, health care for the elderly and disabled individuals, micro-enterprises, small business development and start up, welfare to work and social services support.

#### IV. SUPPORTING COMMUNITY AND ECONOMIC DEVELOPMENT

Beyond housing issues, HUD's other commitments involve supporting community and economic development. The FY 2003 budget will continue to support these programs, which play an essential role in helping communities address locally determined development priorities and maintain long-term prosperity. Highlights of the work HUD proposes in this area for FY 2003 include:

##### COMMUNITY DEVELOPMENT BLOCK GRANTS PROGRAM

The mainstay of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In FY 2003, total funding for CDBG will be \$4.732 billion. For the CDBG formula program, this represents a \$95 million increase. Currently, 860 cities, 153 counties and 50 States plus Puerto Rico receive grant funds.

The HUD budget proposes a legislative change that will alter the current distribution of CDBG formula funds to reduce the size of grants going to communities with per capita income two times the national average. This will focus more funds on where they are needed most: the nation's poorer neighborhoods.

Of the \$4.732 billion in FY 2003, \$4.436 billion will be distributed to entitlement communities, States and insular areas, and \$73 million will be distributed by a competition to Indian tribes for the same uses and purposes. Also for FY 2003, the Department is submitting legislation to fund grants to Insular areas into the formula block grant process. Currently they are funded separately at about \$7 million. The shift will give the Insular areas certainty of funding in the future and would bring them in line with other CDBG entitlement communities.

The remaining \$222 million are set-asides for specific purposes and programs at the local level and are distributed generally on a competitive grant basis. Principal among these are:

- ***National Community Development Initiative (NCDI)***. HUD participates in the privately organized and initiated NCDI. The FY 2003 budget will provide \$30 million for the NCDI, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community based development organizations, including community development corporations (CDCs), in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiative Support Corporation (LISC) and the Enterprise Foundation.
- ***University Partnership Grant Programs***. The FY 2003 budget provides \$31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs to attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to six programs: Historically Black Colleges and Universities; Hispanic-Serving Institutions; Alaskan Native/Native Hawaiian Institutions; Tribal Colleges and Universities; Community Outreach Partnership Centers (COPC); and Community Development Work Study. Funds are used for work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

- ***Colonias Gateway Initiative.*** The FY 2003 budget proposes \$16 million for a new Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on the 1,500-mile stretch of border where the more than 12 million individuals living in the *colonias* are located. *Colonias* are unincorporated communities that are characterized by substandard housing that lack basic infrastructure services and public facilities, and the weak capacity of current intermediaries, with little focus on cost recovery and financial sustainability.

The FY 2003 funds will provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.

## **BROWNFIELDS ECONOMIC DEVELOPMENT INITIATIVE (BEDI)**

BEDI makes competitive economic development grants for the economic development, redevelopment and remediation of qualified brownfields projects. In FY 2003, the Department will award \$25 million in grants. HUD will propose decoupling the brownfields program from the Section 108 loan guarantee program to attract more participants. HUD also intends to work closely with the Environmental Protection Agency (EPA) to more effectively integrate efforts to revitalize brownfields sites.

## **RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM**

HUD is not requesting funding in FY 2003 for the Rural Housing and Economic Development program because many of HUD's core programs, such as CDBG, already serve rural communities, and because other Departments like the U.S. Department of Agriculture have very large and effective programs already in place to address rural housing and economic development issues.

## **ROUND II EMPOWERMENT ZONES**

Round II Empowerment Zone communities will not receive additional funding because after 4 years of funding, major balances of unused funds have built up. Round III did not include

grant funds for designated Zones. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.

To help develop the economies of distressed urban and rural areas, HUD has recently designated 40 Renewal Communities (RCs) and seven additional Round III urban Empowerment Zones (EZs). Private investors in both RC and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of Federal involvement.

**Table 3**  
**COMMUNITY AND ECONOMIC DEVELOPMENT**

	2002	2003	Difference
Community Development Block Grants Fund (Net Formula Funding)	4,341	4,436	95
Special Purpose and Targeted Grants	346	...	(346)
Section 108 Loan Guarantees	15	7	(8)
Urban Empowerment Zones	45	...	(45)
Brownfields Redevelopments Program	25	25	...
Rural Housing and Economic Development	25	...	(25)
National Community Development Initiative	29	30	1
Native American Community Block Grants	70	73	3
Section 107 (University Programs)	36	32	(4)
Colonias	...	16	16

## V. PROTECTING VULNERABLE POPULATIONS

HUD programs provide housing and other essential support to a wide range of vulnerable populations that have special needs. In FY 2003, HUD will strengthen its efforts to protect the nation's most vulnerable people, including adults and children from low-income families, the elderly, persons with physical and mental disabilities, individuals with HIV/AIDS, and both the chronically homeless and those facing transitional housing needs who may become homeless temporarily.

### PROGRAMS TO HELP THE HOMELESS

As the Federal Government's primary provider of targeted homeless assistance, HUD has a special duty to those who have no place to call home. But HUD is not their only source of help, and the Federal Government has not always done a good job of coordinating its efforts. HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and make the funding process simpler for those who provide homeless services.

The FY 2003 budget continues to provide strong support of homeless persons by funding the program at the record levels set in 2002 and 2001. In FY 2003, a total of \$1.130 billion will be provided to fund HUD's homeless programs.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that actually administer to the homeless. These initiatives include:

- ***Reactivation of the Interagency Council on the Homeless.*** Reactivating the Council will provide better coordination of the many programs in the Departments of HUD, HHS, VA, Labor and other agencies that are directly available to homeless individuals. The Department will provide \$1 million to operate the Interagency Council, a 100 percent funding increase over FY 2002.
- ***Legislation to consolidate three competitive programs.*** In addition to providing local jurisdictions with more control over the allocation of resources, this consolidation will eliminate the enormous workload and expense incurred by grantees and HUD to meet the requirements of the three competitive programs. This will not only save costs but will greatly accelerate the availability of funds to local governments and subsequently to the grantees.
- ***Emergency Food and Shelter Program.*** The Administration is proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that is currently administered by FEMA to HUD. This \$153 million program would allow for the consolidation of all emergency shelter assistance – both the EFSP and the ESG programs under one agency. Funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility is based on

population, poverty and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army and the United Way, as well as other experts.

## **PROGRAMS FOR THE ELDERLY AND DISABLED PERSONS**

The FY 2003 budget will provide the same level of funding for supportive housing for elderly and disabled persons as was provided in FY 2002. This is the same level that was provided in FY 2002. These funds are competitively awarded to non-profit organizations that construct new facilities. The facilities are then provided with Section 8-type rental assistance and accept low-income residents. Initial rental assistance is provided for 5 years rather than annually, as is the case with Section 8. However, they are renewed annually thereafter and the renewal of rental assistance is included in the total amounts being provided. In FY 2003, \$783 million will be provided for elderly facilities and \$251 million is provided for disabled facilities.

Many of the residents live in the facilities for years, particularly in the case of the elderly. Over time, individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing \$30 million of the grants for construction to convert existing units to assisted living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, \$53 million of the grant funds will be targeted to the services coordinators who help the elderly residents obtain needed and eligible services from the community.

The disabled facilities grant program will also continue to set aside funds to enable disabled individuals to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers. These vouchers are then renewed annually upon expiration. In FY 2003, \$32 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market.

- ***Non-Elderly Disabled Vouchers.*** As noted earlier, one of the targeted uses of new incremental vouchers under the Section 8 program is for non-elderly disabled individuals who are currently residing in public housing that was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidy elsewhere. If a sufficient number of applications for these vouchers are not received, the PHAs may use them for any other disabled individuals on the PHAs' waiting lists. In FY 2003, the Department will allocate \$40 million for the non-elderly disabled to fund approximately 6,000 vouchers.
- ***Housing Opportunities for Persons with AIDS (HOPWA).*** In FY 2003, HUD will provide \$292 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of \$15 million over the FY 2002 level and is based on the most recent statistics prepared

by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in FY 2003 and provide new grants for an expected 3 to 4 new jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 111-112 in FY 2003.

- **FHA Reverse Mortgages.** FHA's Home Equity Conversion Mortgage Program allows homeowners ages 62 and older who have paid off their mortgages or have only small mortgage balances remaining to borrow against the equity in their homes. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the owner lives in the home. Loans are repaid, with interest, when the home is sold. This program gives senior citizens an option to keep their own homes as long as possible.

**Table 4**  
**HOUSING FOR SPECIAL POPULATIONS**

	2002	2003	Difference
<b>ELDERLY:</b>			
Elderly Housing Production (Section 202)	\$679	\$683	\$4
Project Rental Assistance Contract (PRAC) Renewal	3	16	13
Conversion to Assisted Living/CAP Grant (Rehab)	50	30	(20)
Service Coordinators	50	53	3
Total Elderly	\$783	783	0
Working Capital Fund	1.2	.5	(.7)
<b>PERSONS WITH DISABILITIES</b>			
Persons with Disabilities	\$216	\$212	\$(4)
Project Rental Assistance Contract (PRAC) Renewal	1.3	6	4.7
Mainstream Voucher Renewal	23	32	9
Total Persons with Disabilities	\$241	\$251	10
Use of Recaptures		-10	-10
<b>Total, Elderly and Persons w/ Disabilities Programs</b>	<b>\$1,024</b>	<b>\$1,024</b>	<b>\$0</b>
<b>HOMELESS PERSONS</b>			
Homeless Assistance Grants	\$1,123	\$1,130	\$7
Working Capital Fund	[6]	[2]	[(4)]
Technical Assistance and Management Infor. System	[7]	[18]	[11]
Interagency Council on the Homeless	[1]	[1]	[...]
National Homeless Data Analysis Project	[2]	[...]	[(2)]
Emergency Food and Shelter	...	153	153
<b>Total Homeless Persons</b>	<b>\$1,123</b>	<b>\$1,130</b>	<b>\$7</b>
<b>PERSONS WITH HIV/AIDS</b>			
Housing Opportunities for Persons with AIDS	\$277	\$292	\$15
Technical Assistance	[2]	[2]	0
<b>Total Persons with HIV/AIDS</b>	<b>\$277</b>	<b>\$292</b>	<b>\$15</b>

## HEALTH AND SAFETY PROGRAMS

- ***The Lead-Based Paint program*** is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In FY 2003, funding for the lead-based paint program will increase to \$126 million from \$110 million provided in FY 2002. Grant funds are targeted to the 1.8 million homes that are at risk of not being modified through normal renovation or demolition activities and which are likely to expose children to lead-based paint hazards. Included in the total funding is \$10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars.
- ***Healthy Homes Initiative.*** Also included is \$10 million for the Healthy Homes Initiative, which is targeted funding for other housing-related childhood diseases, such as asthma and mold-induced illnesses. The President's Taskforce Report notes that asthma alone costs the nation over \$6 billion each year. Working with other agencies such as the CDC and the EPA, HUD is bringing comprehensive expertise to the table in architecture, urban planning, environmental science and engineering to address a variety of childhood problems that are associated with housing.
- ***Manufactured Housing Standards program.*** HUD is requesting \$13 million in FY 2003 to meet the expanded costs of this program, as mandated in the American Homeownership Opportunity Act of 2000. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the States to investigate complaints by purchasers and cover administrative costs, including the Department's staff. Fees will be set by regulation to support the operation of this program.

## VI. ENFORCING FAIR HOUSING LAWS

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding State and local fair housing efforts through two programs:

- ***Fair Housing Assistance program (FHAP).*** The FY 2003 budget will provide \$25.7 million, the same level as FY 2002, for State and local jurisdictions with programs that are substantially equivalent to the Federal Fair Housing Act. Funds support the enforcement, education and outreach activities of these agencies. Funds will also continue the Partnership Initiative begun in 2002, which allows FHAP agencies to create partnerships with private entities, non-profit organizations, special interest groups, faith-based organizations, housing counseling agencies and individual experts to help the FHAP agency carry out the fair housing laws.
- ***Fair Housing Initiatives program (FHIP).*** The FY 2003 budget will provide \$20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach and enforcement. The requested funds will also continue four special initiatives that were begun in 2002. FHIP agencies are to demonstrate program activities in these areas as part of their grant application. These include:
  1. Combating predatory lending is an important new activity for FHIP agencies as reports continue to show that abusive lenders frequently target racial minorities, the elderly and women for mortgage loans with abusive terms and conditions.
  2. The Southwest border *colonias* have many barriers to affordable housing in both rental and homeownership. Many of the residents are recent immigrants and unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in that area.
  3. Community and faith-based partnerships will also continue with special emphasis. Recognizing the tremendous impact that education has on the implementation of fair housing laws, virtually any entity (public, private, profit and non-profit) that actively works to prevent discrimination from occurring is eligible to apply for funds under this initiative.
  4. Promoting the rights of persons with disabilities will remain an important initiative within FHIP.
- ***Accessibility for Persons with Disabilities.*** Fair Housing Act accessibility

requirements are implemented through the Project on Accessibility Training and Technical Guidance (PATTG) contract. This contract provides funds to disability advocacy groups and members of the housing industry to jointly design and deliver training and technical assistance on the accessibility requirements of the Fair Housing Act.

## **VII. ENSURING RESPONSIBLE HUD STAFFING AND PROGRAM MANAGEMENT**

The Secretary has established a commitment to improve performance and to produce these improvements in a manner that reflects the highest standards of ethics, management and accountability. This goal sets the framework in which the Department will manage nearly \$31.5 billion in resources in FY 2003.

### **PRESIDENT'S MANAGEMENT AGENDA**

The Department is committed to implementing the President's Management Agenda, which addresses chronic management weaknesses. The Agenda focuses on five key areas: human capital, competitive sourcing, improved financial management, "e-government" information technology, and budget and performance integration. These and other HUD-specific management priorities are discussed below.

### **HUMAN CAPITAL**

After many years of downsizing, HUD faces a potential retirement wave and loss of experienced staff. HUD is completing the development of the new Resource Estimation and Allocation Program (REAP) and will begin allocating staff across HUD programs and geographical areas in 2002. The program will be fully operational in 2003 and will enable HUD to develop and use a comprehensive database on work activities and allocate staff in accordance with new and emerging needs.

### **COMPETITIVE SOURCING**

HUD works primarily through intermediaries or grantees to deliver its programs to recipients, seeking to maintain a proper balance between in-house expertise and oversight capacity and outsourcing. The General Accounting Office and the HUD Inspector General have repeatedly found long-standing deficiencies in HUD's program oversight. In accordance with the President's Management Agenda, HUD will determine if competition of functions identified as commercial would result in better performance and value for the Government.

### **IMPROVED FINANCIAL MANAGEMENT**

In FY 2003, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems.

### **INFORMATION TECHNOLOGY**

Through its capital planning process, HUD will link IT investment decisions to its business more effectively and improve its ability to deliver IT systems on time and within budget and enhance its e-government capabilities.

### **BUDGET/PERFORMANCE INTEGRATION**

In the coming year, HUD will continue to work to improve the integration of its performance planning into the budget process, as required by the Government Performance and Results Act.

### **IMPROVE PERFORMANCE OF HOUSING INTERMEDIARIES**

HUD programs provide financial support to 33,500 PHAs and private owners to house 4.5 million low-income households at 45,000 properties. HUD's oversight role is to assure that these properties are properly managed as a source of decent, safe and sanitary affordable housing for the intended low-income family beneficiaries. HUD will continue to perfect and aggressively act on the results of its monitoring systems and processes for assessing the physical, financial, and management conditions related to HUD-supported properties.

### **INCOME AND RENT DETERMINATIONS**

HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income, the improper calculation of tenant rent contributions and the failure to fully collect all outstanding rent. HUD has committed to a goal of a 50 percent reduction in these erroneous payments by 2005. A comprehensive strategy is being implemented to address this issue, including actions to pursue program simplification, provide updated program guidance and training, develop automated tools for tenant interviews and rent calculations, increase tenant income data sharing and establish an on-going quality assurance program.

### **UTILIZATION OF HUD FUNDS**

The Department is greatly concerned that some recipients of HUD funding are either failing to utilize all of the funds provided by HUD or are failing to obligate and spend the funds in a timely manner. These practices significantly diminish the effectiveness of HUD's programs. HUD will be reviewing the following programs to determine how to attempt to increase the rates of expenditure of funds: Section 8 vouchers and project-based renewals, the Section 202/811 program, CDBG, and the Public Housing Capital Fund.

### **EVALUATION AND RESEARCH**

The FY 2003 budget provides \$47 million in research and technology funding. This funding will be used for key research functions, including expanded funding for program evaluations, conducting housing market surveys and analyzing newly available 2000 Census data to determine its implications for HUD programs. Funds will also be used to improve HUD's ability to measure the direct effects of its programs, consistent with the Government Performance and Results Act, and to operate the Congressionally authorized Regulatory Barriers Clearinghouse.

## **FHA FRAUD REDUCTION AND IMPROVED PROGRAM CONTROLS**

FHA will continue to vigorously attack predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates. In FY 2001, FHA issued a proposed rule to prohibit property “flipping” in FHA programs – schemes where unscrupulous lenders buy homes and quickly resell them at inflated prices to uninformed buyers. Under the proposed rule, FHA will not insure a home purchase loan on a property within 6 months of a previous sale, unless the lender can show that repairs have been made or there are other good reasons. FHA also issued several mortgagee letters to prevent predatory lending practices. During FY 2002, FHA expects to issue a final rule on property flipping. In addition, during FY 2002 and FY 2003, FHA will further improve the loan origination process and provide better monitoring of lenders and appraisers. Supporting this effort, FHA will continue to strengthen its information and financial management systems.