

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

COMMUNITY PLANNING AND DEVELOPMENT

HOME INVESTMENT PARTNERSHIPS PROGRAM

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
(Dollars in Thousands)				
<u>Program Level:</u>				
Obligations	\$1,827,152	\$2,089,300	\$2,199,400	\$110,100
<u>Appropriations: (Enacted or Proposed)</u>				
HOME Program	1,846,040	2,084,100	2,197,400	113,300
Rescission	<u>-50,000</u>	...	...	...
Subtotal	1,796,040	2,084,100	2,197,400	113,300
<u>Budget Outlays (Gross):</u>				
HOME Program	1,539,781	1,600,200	1,700,300	100,100

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2004 Budget proposes \$2.197 billion for the HOME Investment Partnerships Program, a \$113 million increase from fiscal year 2003. HOME funding will provide \$2.149 billion for HOME formula grants, consisting of \$1.169 billion for local Participating Jurisdictions (PJs) and \$780 million for States. In addition, \$200 million is included for the American Dream Down Payment Initiative for assistance to low-income homebuyers that will be distributed by a separate formula, which considers a participating jurisdiction's need for, and prior commitments to, assistance to homebuyers. A new \$25 million lead reduction initiative is proposed to develop and demonstrate innovative local approaches to removing lead hazards, including lead paint from windows, and making homes more lead safe for low-income children.

The \$113 million HOME funding increase from fiscal year 2003 consists of \$83.3 million for the formula program, \$25 million for a new lead reduction initiative and \$5 million for technical assistance and data management and support. The fiscal year 2004 request continues to reflect that Housing Counseling is funded as a stand-alone program and not as a set-aside in HOME as in fiscal year 2002 and prior years.

The following table shows the distribution of funding for fiscal years 2002, 2003 and 2004:

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
(Dollars in Thousands)			
<u>HOME:</u>			
Participating Jurisdictions	\$1,046,069	\$1,119,499	\$1,169,343
States	697,379	746,333	779,562
American Dream Down Payment Initiative .....	...	200,000	200,000
Subtotal Formula Grants	1,743,448	2,065,832	2,148,905
Insular Areas	3,592	4,168	4,395
Lead Reduction Initiative	NA	NA	25,000
Housing Counseling	20,000	[...]	[...]
Program Mgmt. & Analytical Support .....	...	1,000	1,000
HOME/CHDO Technical Assistance	12,000	12,000	16,000
Working Capital Fund Transfer	17,000	1,100	2,100
Total	1,796,040	2,084,100	2,197,400

a/ Funded as a separate account within the Office of Housing.

HOME Investment Partnerships Program. The HOME program helps to expand the supply of standard, affordable housing for low- and very low-income families by providing grants to States, units of general local government and consortia of units of general local governments that are Participating Jurisdiction's (PJs). PJs use their HOME grants to fund housing programs that meet local needs and priorities. PJs have a great deal of flexibility in designing their local HOME programs within the guidelines established by the HOME program statute and program regulations. PJs may use HOME funds to help renters, new homebuyers or existing homeowners through rehabilitation of substandard housing, acquisition of standard housing (including downpayment

assistance), new construction or tenant-based rental assistance. HOME works well with other HUD programs such as Community Development Block Grants (CDBG), and Empowerment Zones/Enterprise Communities/Renewal Communities (EZ/EC/RC) to complement comprehensive neighborhood revitalization and economic revitalization strategies.

Three independent evaluations of the HOME Program have been conducted since 1995. Each found the HOME Program to be effective in achieving its intended results. In addition, the Millennial Housing Commission report, issued in May 2002, recommended a "substantial increase in funding" for the HOME Program in recognition of its effectiveness and accomplishments.

Program Assessment Rating Tool (PART). The Program Assessment Rating Tool (PART) was used to evaluate the HOME Program as part of the fiscal year 2004 Budget process. PART was designed to identify programs' strengths, weaknesses, and to recognize steps to improve performance. The Office of Management and Budget determined that the HOME Program was performing at a high level, receiving a perfect score for management with "a strong management team in place". The PART summary concluded that the Program has a clear public purpose, a flexible design that enables HOME to have a potentially significant impact on affordable housing problems, and managers who "excel at using performance information submitted by grantees to manage the program and promote accountability and transparency". OMB noted the lack of long-term goals for HOME. HUD's Strategic Plan currently under development will include long-term outcome measures for HOME. The President is requesting an increase of \$113 million or 5.4 percent above the fiscal year 2003 Budget based on the performance and priority of this program, which is also reflected in the PART analysis.

American Dream Down Payment Initiative. This Budget proposes allocating \$200 million among PJs and States for low-income families in need of down payment assistance. Homeownership provides low-income families with an opportunity to build assets and share in the American dream. Providing this opportunity to these households is important to the national policy objective to increase homeownership, especially among minority groups, and to help stabilize neighborhoods. Obtaining the resources to meet upfront downpayment and closing costs is the most significant obstacle to homeownership among lower income groups. The American Dream Down Payment Initiative would reduce that obstacle for thousands of additional families each year. This Initiative is subject to legislative enactment. It is estimated that over time, this funding will provide downpayment assistance to 40,400 families.

Lead Reduction Initiative. The Lead Reduction Initiative program is a new \$25 million competitive grant program focused on making homes lead safe for children who are at greatest risk for lead poisoning in privately owned low-income housing. This Initiative will demonstrate innovative local approaches that are results oriented and cost effective and will serve as models for wider use of these methodologies. The program will include careful evaluation to identify the most promising strategies, which will be used to further the performance of HUD's main lead-based paint hazard reduction program. The program will allow for wide flexible use of the funds at local discretion to protect children at greatest risk. Under this initiative, communities would be able to develop a program, such as a window-replacement program to address such specific local problems.

HOME and CHDO Technical Assistance. The HOME budget proposes \$16 million for technical assistance (TA) activities for States and local government PJs and non-profit Community Housing Development Organizations (CHDOs). Technical assistance projects provide the support and tools to strengthen local capacity, improve program compliance, expand participation by non-profit housing providers, ensure cost-effectiveness and design innovative approaches to affordable housing needs. Technical assistance funds support assistance to individual State and local PJs upon request, as well as national training courses ranging from HOME basics to advanced financing techniques for rental developments. In addition, TA funds enable the production of a variety of written and web-based materials that provide guidance to HOME participants. To date, 19 model guidebooks have been produced including guides on comprehensive monitoring techniques, property and asset management, employer-assisted housing, and special needs housing. Future funds will address PJs' requests for additional on-site TA, training courses and written products. Six new national training courses, eight new or updated publications and a core-curriculum for web-based training have been recently produced or are currently under development. Specific topics respond to areas of particular concern to the Department (such as lead-based paint remediation) and to State and local governments (such as building CHDO capacity).

HUD/CHDO TA funding of \$12 million resulted in a number of reductions in key areas. As a result, resources were not available for CHDO TA in some parts of the country. In addition, CPD was required to cut funding in half for the HOME Program related services under the College of Experts and Community Connections. These cuts have severely impacted CPD's ability to assist troubled grantees under the College of Experts. The College of Experts is a flexible tool that permits the office of Community Planning and Development to provide expert direct technical assistance to address specific challenges or problems encountered by grantees. There are currently 10 HOME PJs, which have severe problems with timeliness, that are awaiting direct TA. Some of these PJs have been waiting for more than 1 year. There were also cutbacks in HOME-related services provided under the Community Connections contract. Community Connections is CPD's information and publication clearinghouse for grantees, program participants, and the public. As a result of the cutback in the amount of HOME TA funds available, the Community Connections contract has curtailed the following activities in support of the HOME program: development of new and/or revised HOME publications; translation of existing, new or revised publications into Spanish; development of materials for the HOME program on HUD's website, support for the Consolidated Plan revisions initiative; support for updating databases for HOME

HOME Investment Partnerships Program

grantees and subrecipients; and informational updates on HOME faxed to grantees, public interest groups, and subrecipients.

Furthermore, CPD has cancelled a planned procurement to develop and deliver environmental compliance training for HOME participating jurisdictions. CPD was able to fund less than half of a task order to develop and deliver new and revised training courses, develop new model program guides and develop new web-based training products and tools. Finally, CPD targets 5 percent of its TA resources to the Colonias. While a worthy effort, this has further reduced the TA resources available for other efforts and other clients.

This wide variety of critical uses of TA supports the need for increased funding in 2004.

Program Management and Analytical Support (PMAS). The HOME budget proposes \$1 million for PMAS to identify and analyze local and national needs, assess program performance, and provide localities and other community members with the necessary guidance to plan and track performance.

These funds will specifically assist metropolitan cities, urban counties, consortia, and States in preparing information to be submitted to HUD and will be used for the analysis and evaluation of that data. The funds will be used for operational support work, as follows:

- To develop and maintain a website containing programmatic guidance and system information for grantees to ensure that grantees are meeting statutory and regulatory requirements of CPD programs;
- To extract information from the Integrated Disbursement and Information System (IDIS) and other sources to measure and analyze costs; to assess program performance, services delivered, and beneficiaries; and to identify, delineate, describe and assess issues on community development programs and policies. CPD contractors will identify, collect, and analyze quantitative and qualitative information and prepare written assessments. The Department's data efforts will expand our performance monitoring and reporting capability for Government Performance Results Act purposes. HUD will improve the economic development potential of governmental units and increase the participation of the private sector in community and economic development assisted under Title I; and
- To conduct system data purification campaigns necessary to advance data collection quality related to performance measurement.

Working Capital Fund Transfer. This Budget proposes a transfer of \$2.1 million to the Working Capital Fund (WCF) to allow for systems development and enhancements for CPD programs.

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2004 Budget request of \$2.197 billion for HOME (including set-asides) is \$113 million above the fiscal year 2003 Budget. Obligations are expected to increase by \$110 million from 2003. Outlays for 2004 are expected to increase by \$100 million as prior year obligations are spent out. The rise in budget authority is primarily an increase in formula funds of \$83 million for this very successful affordable housing program as well as \$25 million to fund the Lead Reduction Initiative.

PROGRAM DESCRIPTION AND ACTIVITY

1. Legislative Authority. The HOME Investment Partnerships program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act (NAHA) (P.L. 101-625), as amended. A legislative proposal authorizing the Downpayment Assistance Initiative has been introduced in Congress and must be enacted prior to the expenditure of any Downpayment Initiative funds. A legislative proposal will be submitted by October 1, 2003 for the Lead Reduction Initiative program.

2. Program Description.

HOME Investment Partnerships Program. The HOME program plays a key role in addressing the shortages of affordable rental housing and homeownership in America. States, urban counties, consortia of local governments, and cities use their annual HOME allocations to expand affordable rental housing opportunities by building, rehabilitating, and buying multifamily rental properties, and by providing tenant-based rental assistance. Participating Jurisdictions (PJs) use HOME funds to expand and improve homeownership among low-income households by rehabilitating owner-occupied housing, and providing assistance to new homebuyers. The HOME Program continually exceeds the low-income benefit requirements established by the HOME Statute, which mandates that all households assisted have incomes below 80 percent of area median and 90 percent of those assisted with rental housing have incomes below 60 percent of median (see Low-Income Benefit below).

The following aspects of the HOME program make it an effective and efficient provider of affordable rental and homeownership opportunities for the nation's low-income families:

- Production. Beginning with fiscal year 1992, the year the HOME program began, through September 30, 2002, States and local governments have committed to projects over \$11.2 billion in Federally allocated HOME funds (based on data from the Integrated Disbursement and Information System). Of this amount, \$6.3 billion has

been disbursed for completed projects, with an additional \$3.5 billion disbursed for ongoing projects. These funds have leveraged over \$19 billion in other funds for a total of over \$25.5 billion in resources for completed projects. The number of households assisted is 687,274.

- An estimated 687,274 units have been newly constructed, rehabilitated, or acquired in standard condition and 83,939 families have received tenant-based rental assistance. Of the units to which funds have been committed, 450,589 units have been completed, of which 37 percent are homebuyers. Based on historical usage, it is projected that 36 percent of funds will be for new construction, 47 percent for rehabilitation, 14 percent for acquisition, and 3 percent for tenant-based rental assistance.
- Low-Income Benefit. All households assisted through the HOME program must have annual incomes that do not exceed 80 percent of the area median income. HOME makes homeownership affordable to lower-income households. Eighty-two percent of existing homeowners and 52 percent of new homebuyers receiving assistance have incomes below 60 percent of the median income. The majority of the new homebuyers are purchasing housing outside areas of poverty concentration. The average poverty rate of census tracts in which assisted homebuyers purchase new homes is less than 20 percent.
- In addition, the HOME statute requires that at least 90 percent of the households receiving HOME rental assistance have incomes that do not exceed 60 percent of the area median income. The HOME program consistently exceeds this income-targeting requirement. A total of 99 percent of households receiving tenant-based rental assistance and 96 percent of households occupying assisted rental units have incomes below 60 percent of the area median, for a combined 97 percent. Furthermore, 56 percent of assisted rental households are those likely to have the worst-case housing needs, with incomes below 30 percent of the area median income.
- Modest Cost Per Unit. The average HOME subsidy for a HOME assisted unit remains modest. In fiscal year 2002, the average unit subsidy was only \$15,873. The average unit subsidy drops further to below \$14,218 per unit when tenant-based rental assistance, which averages \$3,543 per family assisted, is included. HOME funds are effectively leveraged, with over \$3.05 contributed from other public and private funds for every \$1 of HOME funds.
- Flexible Program Design. HOME's flexible program design allows States and local PJs to be successful in meeting their needs in a manner most appropriate to local housing markets. There have been many creative uses of HOME funds, including addressing the special needs populations with both tenant-based rental assistance and units linked to supportive services, new models of assistance to new homebuyers, and large and small rental projects, some newly constructed and some acquired and/or rehabilitated. The program also helps meet the need for permanent housing for homeless persons and families.
- Non-profit Housing Development. The HOME statute requires that at least 15 percent of each PJ's annual allocation be reserved for housing which is developed, sponsored or owned by Community Housing Development Organizations (CHDOs). As of September 30, 2002, State and local government PJs had reserved almost \$3 billion or 19 percent for CHDO housing activities. Non-profit organizations, including those sponsored by faith-based organizations, also participate in the HOME program as subrecipients acting on behalf of the PJ in accordance with written agreements.
- Capacity. State and local PJs, as well as their non-profit partners, have the capacity to use additional HOME funds. Since the program began in fiscal year 1992, the number of local PJs has increased from 387 to 602 in fiscal year 2002 (a 55 percent increase) due to the formation of new consortia and new metropolitan cities and urban counties. Thus, despite increases in HOME appropriations, the amount of funds going to individual local PJs has not had a proportionate increase, as more and more local jurisdictions have qualified for HOME allocations. As an example, in fiscal year 1992, with a national appropriation of \$1.5 billion, Miami, Florida's allocation was \$5,314,000, while in fiscal year 2002 they received \$5,409,000 although the national appropriation was nearly \$1.8 billion. In addition, when inflation is considered, the real dollar value has declined for most PJs. The amended lead hazard removal requirements will also raise the cost of producing a HOME-assisted unit, further reducing the number of housing units which can be assisted by States and local participating jurisdictions.

a. Eligible Recipients. Eligible recipients of HOME funds include States, metropolitan cities (including the District of Columbia), urban counties, Puerto Rico and the Insular areas of the Virgin Islands, American Samoa, Guam and the Northern Marianas. Under certain circumstances, a consortium of geographically contiguous units of general local government may also be eligible for funding. In order to apply for HOME funds, State and local governments must develop a Consolidated Plan covering assisted housing and community development activities. The Plan must be approved by the Department before HOME funds can be received. Insular areas are not required to submit a Consolidated Plan to apply for HOME funding.

HOME Investment Partnerships Program

b. Formula Allocation. Annual HOME allocations to States and eligible local government PJs are determined by a formula that reflects the severity of local affordable housing needs. After certain amounts are identified for program set-asides and other purposes, 60 percent of the remaining funds are awarded to participating local governments and 40 percent are awarded to States. All States receive a minimum annual allocation of at least \$3,000,000. In addition, the greater of 0.2 percent of the total allocation or \$750,000 is available to Insular Areas. Through 1997, funds for the Native American HOME program were requested as a part of the appropriation. Beginning in 1998, this funding was included under the Native American Block Grant. For fiscal year 2004, funding for set-asides total \$48.5 million, about 2 percent of the appropriation (exclusive of The American Dream Down Payment Initiative), leaving \$1.948 billion for allocation to States and participating local governments using the following 6 formula factors (factors are based on 2000 census data):

- vacancy-adjusted rental units where the head of household is at or below the poverty level;
- occupied rental units with at least one of four problems (overcrowding, incomplete kitchen facilities, incomplete plumbing, or high rent costs);
- rental units built before 1950 occupied by poor families;
- a ratio of the jurisdiction's costs of producing housing divided by the national cost;
- the number of families at or below the poverty level; and
- the population of a jurisdiction multiplied by the net per capita income.

The formula ensures that PJs with the greatest housing needs receive the most funding. Taking into account the increasing average amount of HOME funds invested per unit, the additional funds requested for fiscal year 2004 will produce slightly more units than the fiscal year 2003 Budget. The following reflects projected production over time of HOME formula allocations from fiscal year 2001 through fiscal year 2004:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Production	98,589	87,035	103,987	104,873
Tenant-Based Assistance	11,724	10,350	12,705	12,656

c. Reallocation of Funds. The HOME statute provides that HOME funds will be available to PJs for affordable housing projects for 24 months. Thus, the Department must deobligate HOME funds that have been available to PJs, but that have not been committed to affordable housing at the end of the last day of the month of the 24-month period. The Department must also deobligate funds that are required to be reserved for Community Housing Development Organizations (CHDOs) (15 percent of a PJ's allocation) but that have not been reserved for CHDOs at the end of the last day of the month of the 24-month period. As of September 30, 2002, the Department has deobligated \$11.7 million in non-CHDO funds and \$6.5 million in CHDO funds. The deobligation process ensures that HOME funds are used in a timely manner. As of September 30, 2002, the Department has also made \$793,500 in grant reductions as a corrective action for incomplete or ineligible activities. Deobligated non-CHDO funds and grant reduction funds are available for formula reallocation to all PJs during the next formula allocation cycle. Deobligated CHDO funds are held for a future competitive allocation.

d. Eligible Activities. HOME funds can be used for assistance to new homebuyers, acquisition, and rehabilitation of affordable rental and ownership housing, construction of housing and tenant-based rental assistance. By statute, funds may not be used to provide tenant-based rental assistance for certain special purposes of the existing Section 8 program, to provide non-Federal matching requirements for other programs, or to finance public housing operating subsidies or modernization.

e. Matching Requirements. Effective with the 1993 appropriation, PJs must provide matching contributions of at least 25 percent of HOME funds spent for tenant-based rental assistance, rehabilitation, acquisition and new construction. The Housing and Community Development (HCD) Act of 1992, however, provides that the matching requirement shall be reduced by 50 percent for jurisdictions that are in fiscal distress and by 100 percent for jurisdictions that are in severe fiscal distress. The Secretary may also reduce the matching requirement for jurisdictions that are Presidentially declared disaster areas.

STATUS OF FUNDS

Balances Available

a. Unobligated Balances. The following table compares the program obligations with funds available by year:

	ACTUAL <u>2002</u>	ESTIMATE <u>2003</u>	ESTIMATE <u>2004</u>
	(Dollars in Thousands)		
Unobligated balance, start of year	\$284,196	\$256,477	\$251,277
Appropriation	1,796,040	2,084,100	2,197,400
Recoveries from prior years	3,393	...	...
Total Available	<u>2,083,629</u>	<u>2,340,577</u>	<u>2,448,677</u>
Obligations	<u>-1,827,152</u>	<u>-2,089,300</u>	<u>-2,199,400</u>
Unobligated balance, end of year .	256,477	251,277	249,277

b. Obligated Balances. The status of obligated balances is as follows:

	ACTUAL <u>2002</u>	ESTIMATE <u>2003</u>	ESTIMATE <u>2004</u>
	(Dollars in Thousands)		
Obligated balance, start of year .	\$4,383,321	\$4,667,299	\$5,156,399
Obligations incurred, Grants . . .	1,827,152	2,089,300	2,199,400
Subtotal	6,210,473	6,756,599	7,355,799
Outlays, HOME (Gross)	-1,539,781	-1,600,200	-1,700,300
Recovery of prior year obligations	-3,393	...	...
Obligated balance, end of year . .	<u>4,667,299</u>	<u>5,156,399</u>	<u>5,655,499</u>

HOME Investment Partnerships Program

The following table shows HOME Investment Partnerships Program allocations, by State, for 2002, 2003 and 2004.

<u>STATE OR TERRITORY</u>	<u>ACTUAL</u>	<u>ESTIMATE</u>	<u>ESTIMATE</u>
	<u>2002</u>	<u>2003</u>	<u>2004</u>
		(Dollars In Thousands)	
Alabama	\$25,678	\$26,162	\$27,327
Alaska	4,079	4,329	4,522
Arizona	21,503	27,244	28,457
Arkansas	15,453	16,431	17,162
California	235,259	273,024	285,180
Colorado	19,807	23,076	24,103
Connecticut	19,873	21,068	22,006
Delaware	4,775	5,278	5,513
District of Columbia	7,797	9,227	9,638
Florida	73,059	84,580	88,346
Georgia	38,889	44,252	46,222
Hawaii	7,735	8,065	8,424
Idaho	5,790	7,157	7,476
Illinois	84,014	78,700	82,204
Indiana	31,179	31,398	32,796
Iowa	16,692	15,621	16,316
Kansas	13,910	14,087	14,714
Kentucky	26,197	25,818	26,968
Louisiana	34,693	32,517	33,965
Maine	7,357	8,687	9,074
Maryland	25,525	26,442	27,620
Massachusetts	44,865	49,500	51,704
Michigan	66,830	53,300	55,673
Minnesota	23,011	23,230	24,264
Mississippi	18,511	17,942	18,741
Missouri	31,224	32,071	33,498
Montana	5,587	6,415	6,700
Nebraska	9,248	9,452	9,873
Nevada	9,037	12,606	13,167
New Hampshire	5,224	6,711	7,010
New Jersey	45,133	51,323	53,609
New Mexico	9,972	11,346	11,851
New York	190,894	211,958	221,395
North Carolina	35,569	41,921	43,787
North Dakota	4,073	3,805	3,974
Ohio	78,962	69,592	72,690
Oklahoma	19,941	21,167	22,110
Oregon	20,632	22,751	23,764
Pennsylvania	77,166	79,263	82,792
Rhode Island	8,071	9,684	10,115
South Carolina	18,723	20,512	21,426
South Dakota	4,357	4,456	4,655
Tennessee	30,120	32,151	33,582
Texas	110,768	124,172	129,700
Utah	8,929	9,808	10,245
Vermont	4,085	4,380	4,575
Virginia	31,613	35,642	37,229
Washington	31,393	35,740	37,332
West Virginia	13,241	13,539	14,142
Wisconsin	32,834	29,304	30,609
Wyoming	3,510	3,746	3,912
Puerto Rico	<u>30,661</u>	<u>35,182</u>	<u>36,748</u>
Subtotal Formula Grants	1,743,448	1,865,832 b/	1,948,905 b/
Other activities a/	<u>52,592</u>	<u>218,268</u>	<u>248,495</u>
TOTAL HOME	1,796,040	2,084,100	2,197,400

a/ Subtotal includes the \$200 million Downpayment Assistance Initiative in fiscal years 2003 and 2004. Fiscal year 2004 also includes \$25 million for the Innovative Lead Hazard Reduction Demonstration.

b/ Fiscal years 2003 and 2004 numbers represents preliminary data based on the 2000 Census.

HOME Investment Partnerships Program

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	51	58	58
Field	64	78	79
Total FTE	115	136	137
S&E Cost (Dollars in Thousands)			
Personal Services	\$10,207	\$12,293	\$12,751
Travel	116	119	126
Printing	82	66	68
Other Services	327	367	478
Supplies	10	4	4
Total S&E Cost	\$10,742	\$12,849	\$13,427