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Appropriations for FY2003: VA, HUD, and Independent Agencies

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Appropriations are one part of a complex federal budget process that includes budget resolutions, appropriations (regular, supplemental, and continuing) bills, rescissions, and budget reconciliation bills. The process begins with the President's budget request and is bounded by the rules of the House and Senate, the Congressional Budget and Impoundment Control Act of 1974 (as amended), the Budget Enforcement Act of 1990 (scheduled to expire at the end of FY2002), and current program authorizations.

This Report is a guide to one of the 13 regular appropriations bills that Congress passes each year. It is designed to supplement the information provided by the House and Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies. It summarizes the current legislative status of the bill, its scope, major issues, funding levels, and related legislative activity, and will be updated to reflect new developments. The Report lists the key CRS staff relevant to the issues covered and related CRS products.

NOTE: A Web version of this document with active links is available to congressional staff at: [http://www.crs.gov/products/appropriations/apppage.shtml].

Appropriations for FY2003: VA, HUD, and Independent Agencies

Summary

FY2003 Administration Requests. The House and Senate Subcommittees on Appropriations for the Departments of Veterans Affairs (VA), Housing and Urban Development (HUD), and Independent Agencies have begun work on FY2003 appropriations. The Administration requested $122.8 billion ($93.5 billion in discretionary funds) to carry out the various programs, according to estimates by the Congressional Budget Office (CBO) for use during the appropriations process. Among the independent agencies are the Environmental Protection Agency (EPA), the Federal Emergency Management Agency (FEMA), the National Aeronautics and Space Administration (NASA), and the National Science Foundation (NSF).

The Administration's budget proposes a $1.6 billion increase in VA medical care, to provide health care for the burgeoning veteran population. In FY2003, VA expects to provide medical services to nearly 5 million veterans, double the number VA served 5 years ago.

For HUD, the Administration would renew all expiring rental assistance (Section 8) contracts, and provide for 33,400 additional vouchers. Under the budget proposals, no substantial changes to most individual programs are envisioned, although the Public Housing Capital Fund would be cut by $417 million, along with a controversial new initiative to leverage private capital for modernization.

EPA projects receiving approximately $500 million in "earmarked" funds for FY2002 would not receive funding for FY2003. Other environmental projects would be scaled back, and the Superfund, which funds the clean-up of toxic wastes would continue the decline which began when its taxing authority ceased at the end of 1995.

NASA funding would remain close to FY2002 levels under the President's proposed budget. While space exploration would continue under the proposed budget, funds for the International Space Station would be $254 million less, reflecting an Administration intent to curtail construction of the station at a stage it calls "core complete." NSF would expand by 5%, and FEMA funding would continue to depend largely on unknown emergency needs.

In its budget, the Administration proposed that the future costs of retirement benefits and retiree health insurance for current federal employees should be shown as an accruing cost for each fiscal year. Because this change requires legislation to accomplish, the effects upon annual appropriations of the change are not shown in this report, which is based on CBO estimates of program costs under current law.

FY2002 Appropriations. P.L. 107-73, appropriations for FY2002 for VA, HUD, and Independent Agencies, provided $112.7 billion for FY2002. After taking into consideration supplementals, rescissions, recaptures, and mandatory spending projections, CBO estimates that Congress provided $119.6 billion for FY2002 for programs funded through the VA, HUD, and Independent Agencies appropriations process, including $92.3 billion in discretionary funds.

Key Policy Staff

Name	Area of Expertise	CRS Division	Tel.
Keith Bea	Disaster Assistance; Emergency Mgmt.	G&F	7-8672
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Division abbreviations: DSP=Domestic Social Policy; G&F=Government and Finance; RSI=Resources, Science and Industry.

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Most Recent Developments

President submits FY2003 budget. *On February 4, 2002, the President submitted a proposed budget for FY2003. According to congressional estimates, the President's budget proposes $122.8 billion in appropriations for programs provided through the bill covering the Departments of Veterans Affairs (VA), Housing and Urban Development (HUD), and various other independent agencies.*

President signs H.R. 2620 as P.L. 107-73, appropriations for FY2002. *On November 26, 2001, President Bush signed the VA, HUD, Independent Agencies appropriations bill for FY2002. Conferees finished their work on November 6, and both Chambers approved the Conference Report (H.Rept. 107-272) on November 8.*

Congress approves, President signs P.L. 107-38, an emergency supplemental in response to terrorist acts. *On September 18, the President signed H.R. 2888, a bill Congress unanimously approved (September 14) that provides $40 billion ". . . for additional disaster assistance, for anti-terrorism initiatives, and for assistance in the recovery from the tragedy that occurred on September 11, 2001, and for other purposes."*

Status

Table 1. Status of VA, HUD and Independent Agencies Appropriations, FY2003

Subcommittee markup		House Report	Passed House	Senate Report	Passed Senate	Conference Report	Conference Report approval		Signed
House	Senate						House	Senate	
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Total Appropriations Enacted for FY2002 and Requested for FY2003 for VA, HUD, and Independent Agencies

Table 2. Summary of VA, HUD, and Independent Agencies Appropriations, FY2002-FY2003

(budget authority in billions)

Department or Agency	**FY2002 enacted**[b]	**FY2003 request**	**FY2003 House**	**FY2003 Senate**	**FY2003 Confer.**
Department of Veterans Affairs	51.137	54.613	--	--	--
Department of Housing and Urban Development	32.149	31.450	--	--	--
Environmental Protection Agency	8.079	7.621	--	--	--
Federal Emergency Management Agency	7.660	6.704	--	--	--
National Aeronautics and Space Administration	14.902	15.000	--	--	--
National Science Foundation	4.789	5.029	--	--	--
Other Independent Agencies	0.926	1.143	--	--	--
Grand Total: Appropriations	**119.642**	**121.561**	**--**	**--**	**--**
Score keeping adjustments[a]	-0.004	1.195	--	--	--
Receipts; misc. adjustments	*-0.004*	*-0.004*	--	--	--
Proposed retirement accruals	---	*1.199*	--	--	--
Total: Fiscal Year mandatory and discretionary authority	**119.638**	**122.756**	**--**	**--**	**--**
Mandatory	*27.305*	*29.250*	--	--	--
Discretionary	*92.334*	*93.506*	--	--	--

Source: House Committee on Appropriations

Note: Totals will not add due to rounding at agency level. Italics indicates lines are subsumed within entry above.

[a]Adjustments may include various legislative changes, rescissions, cancellations, receipts, supplementals, advance appropriations, accounting changes, and reestimates of program experience.
[b]Totals for FY2002 include emergency supplementals.

Title I: Department of Veterans Affairs

Spending for VA Programs

FY2003. The President requested $56.6 billion for the Department of Veterans Affairs (VA) for FY2003. Congressional reestimates of the Administration's budget for the VA for FY2003 show the request to be $54.6 billion, an increase of $3.5 billion over the amount projected to be the final appropriations recorded for FY2002.[1] (Congressional estimates do not include amounts that the Administration's budget documents project would be required to carry out an Administration proposal to "book" to the current year, the future costs of federal employee retirement income and health benefits presumed to be earned in that year.) About $1.8 billion of projected programmatic increases result from projected higher mandatory spending for VA cash entitlement programs. The VA medical care program would receive about $1.7 billion in additional appropriations under the Administration's request.

FY2002. After including updated spending for increased mandatory spending for VA entitlements, projected FY2002 final appropriations for VA will total $51.1 billion. According to the conference report accompanying P.L. 107-73, the VA-HUD appropriation bill (as the bill containing annual appropriations for VA is popularly known) (H.Rept. 107-272), the Administration requested $50.7 billion for VA programs for FY2002.

VA Cash Benefits. Spending for the VA cash benefit programs is mandatory, and the amounts requested in the budget are based on projected caseloads. Definitions of eligibility and benefit levels are in law. While the number of veterans is declining, VA entitlement spending, mostly service-connected compensation, pensions, and readjustment (primarily education) payments, reached $23.4 billion in FY2000, $25.7 billion in FY2001, is expected to be $27.3 billion in FY2002, and is projected to reach $29.3 billion in FY2003. Much of the projected increases for FY2001 and FY2002 result from liberalizations to the Montgomery GI Bill, the primary education program.

Compensation and pensions. The compensation program pays benefits to living veterans who have suffered a loss or reduction in earning capacity as a result of a condition traceable to a period of military service, and to the dependent survivors of certain veterans. The VA pension program is a means-tested benefit for permanently disabled (from a condition unrelated to their military service) veterans of war-time service, whose incomes and assets fall below certain levels. After taking into consideration the financial circumstances and dependents of eligible veterans, the pension payments, along with countable income, are intended to bring their total incomes to the basic targeted amounts.[2] Given the broad availability of other sources

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[1] Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

[2] For 2002, the annual basic level for an eligible single veteran is $9,556; with 1 dependent, $12,516; and each additional dependent, $1,630. Additional amounts are available for (continued...)

of income, including social security, program caseload is diminishing, as fewer veterans have incomes below the categorical levels.

During FY2002, about 2.3 million veterans are drawing an average of $633 in monthly compensation for service-connected disabilities; about 310,000 of their dependent survivors are averaging about $1,021 in monthly payments. Pensions for 346,000 veterans average about $569 monthly; 233,000 survivors of veterans pensioners average about $245 monthly.

Readjustment. Following a tradition going back to the beginnings of the Republic, near the end of World War II Congress enacted a series of programs to assist veterans in their readjustment to civilian life, and to help the national economy adapt to the influx of demobilizing armed forces. The GI Bill has entered the national lexicon as an example of federal responsibility for this readjustment responsibility, and many citizens continue to refer to the current array of programs by that historical name. Indeed, the largest current program providing readjustment education benefits is named the Montgomery GI Bill program, after its congressional sponsor and the heritage it brought into the age of an all-volunteer military service.

Without conscription to fill the ranks of active duty armed services, the inducements to potential recruits must be sufficient to attract them to enlist. The Montgomery GI Bill provides recruits with the promise of educational assistance when they separate, and the amounts that eligible participants receive has climbed significantly over the last few years, currently $800 per month for 36 months for a 3-year enlistment, and scheduled to rise to $900 per month on October 1, 2002, and $985 per month on October 1, 2003. During FY2003, about $2.3 billion in total payments for education payments will go to 326,000 active duty veterans, 79,000 reservists, and 50,000 dependents.

Medical Care. VA operates the nation's largest health care system, with 172 hospitals, 137 nursing homes, 43 domiciliaries, 206 readjustment counseling centers (Vet Centers), 73 home health-care programs, and about 900 outpatient clinics. About 88% of VA's 207,000 employees will be involved in the provision of medical services to an estimated 4.7 million veterans during FY2002, a caseload expected to reach 4.9 million by the end of FY2003. The FY2001 caseload was about 4.2 million unique patients.

Outpatient visits are climbing rapidly. The total number of such visits had reached 43.8 million during FY2001, and is projected to increase by 2.3 million over FY2002-FY2003, from slightly less than 47 million to 49.2 million. Patients will average around 12 visits per veteran patient served. Almost 2,000 medical care employment slots will shift from inpatient programs to outpatient care.

According to VA data accompanying the FY2003 Budget, the daily inpatient caseload for FY2002 is projected to be 57,522 rising to 58,361 patients by the end of FY2003. There is a decline in all service units except for two categories, acute care

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[2] (...continued)
eligible veterans who are housebound, or in need of aid and attendance.

and nursing homes. Acute care patients have increased because of the larger number of total numbers of veterans who are seeking VA medical services, and while the total number of acute care cases has increased by 2,700 over the last year, the average daily census for acute care has actually declined by 20 patients, the result of a decline in the average length of stay. In a reflection of the aging of the veteran population, and the commitment by Congress to increase the capacity of VA to serve an aging veteran population, the number of patients given convalescent care is projected to increase by over 7,000 during the next year, with the average daily nursing home census rising by 1,205 patients.

The Administration has asked Congress to provide $22.7 billion for VA medical care for FY2003, continuing the annual increases in funds as the program continues to serve a larger number of veterans each year. FY2002 congressional appropriations for VA medical care were $21.3 billion, $1 billion above the $20.3 provided for FY2001. Congress approved $19 billion for FY2000.

Medical Care Cost Collections. In addition to the funds provided by Congress, VA medical care is also authorized to "recycle" budget authority from amounts VA facilities collect from various sources with an obligation to help defray the cost of VA care for certain patients. The Balanced Budget Act of 1997 (P.L. 105-33) gave VA authority to retain net receipts of the Medical Care Collections Fund (MCCF), allowing the funds to be spent for medical services to veterans rather than be transferred to the Treasury as under previous law. Congress also created a new fund for FY2002 (the Health Services Improvement Fund), which collects increases in pharmacy copayments that went in to affect on February 4, 2002. This new fund also receives income from "enhanced use leases," which are arrangements for sharing VA medical assets with paying customers from outside of VA. These leases can include the revenue from liquidation or leasing of VA capital assets, as well as income from VA services for which users have contracted. Current Congressional Budget Office (CBO) estimates are that collection receipts added an estimated $639 million in recycled spending authority in FY2001, and will generate an estimated $691 million in FY2002, and $752 million in FY2003.

Medical research. The VA engages in research as an ancillary function of the treatment of veterans, and conducts independent research projects intended to advance medical science. Almost one-half of VA's research funding comes from conventional medical research funding sources, the bulk of which is provided through grants from the National Institutes of Health (NIH). The remaining funds supporting VA research are split almost evenly between appropriations from Congress specifically for such research, and salaries and expenses from the VA medical care budget for the VA medical staff who are producing the studies that exhibit VA's research findings. About two-thirds of the research projects are initiated by the medical staff reporting their findings. These projects are giving greater attention to the diseases associated with an aging population, especially in conjunction with the management of those chronic conditions that are a growing part of the outpatient workload.

The Administration has requested $394 million in direct appropriations for VA research in FY2003, Congress provided $371 million for VA research in FY2002, $350 million for FY2001, and $321 million for FY2000.

Response to Hepatitis C virus (HCV). The Centers for Disease Control and Prevention (CDC) estimates that over 4 million Americans are infected with Hepatitis C, and some data exist that the disease is even more prevalent among veterans than in the general population. A VA study in 1999 found that the veterans it surveyed had a prevalence rate of 6.6%, compared to an estimated 1.8% in the general population. Upon release of the study, leading veterans groups and some health care professionals advocated an aggressive response by VA to combat the contagious threat. The Administration's budget estimated that funding for the diagnosis and treatment of infected veterans would rise to $340 million in FY2001, up from $195 million in FY2000, and $46 million in FY1999.

However, VA analysts were concerned that ". . . no comprehensive system was in place to collect information about actual workloads and costs" for the Hepatitis C program because the projections for them "were based on formulas that relied on untested assumptions" and "actual performance (particularly for FY2000) did not bear out projections." While Hepatitis C continues to be a serious health issue in need of dedicated attention to its causes, prevalence, diagnosis, treatment, management and possible cure, it does not appear that the dire predictions about its effect on the veteran population have been borne out. However, the costs of diagnosis and treatment have risen considerably from their FY1999 levels. Actual costs for HCV related medical services during FY2001 are estimated to have been $98 million, and for FY2002 are projected to reach $105 million, with $111 million expected to support diagnosis and treatment during FY2003.

Housing benefits. The VA program to guarantee home loans for veterans has made a significant contribution to the national goal of increasing the number of families who own their own homes. Because of the guarantees, lenders are protected against losses up to the amount of the guarantee, thereby permitting veterans to obtain mortgages with little or no down payment, and with competitive interest rates. These guarantees, and certain direct loans to specific categories of veterans were obligations of the federal government that constituted mandatory spending; administrative expenses are discretionary appropriations transferred from the home loan programs to the General Operating Expenses account.

VA construction. The Administration has requested $194 million for major construction projects for FY2003, and requested the same amount for minor construction as was appropriated for FY2002. Congress provided $183 million in major construction for FY2002, and $211 million in minor construction. "Major construction" projects have an estimated cost over $4 million. Many of the minor construction projects will continue VA's overall strategy of expanding outpatient access for medical care. Congress provided $66 million for major construction, and a total of $171 million for minor construction for FY2001. P.L. 106-74 included $65 million for major construction, and $160 million for minor construction (projects with an estimated cost under $4 million), for FY2000.

Capital asset realignment. VA has developed a comprehensive planning approach to constructing, altering, extending, or otherwise improving facilities. In part, this new planning approach, called Capital Asset Realignment for Enhanced Services (CARES), is the Department's reaction to the criticism it has received from areas of the country in which hospital resources have been cut back, in order to redirect those resources to outpatient care, usually in other geographical areas. While VA has been successful in expanding the number of patients it serves, conflict continues between advocates of a more efficient use of resources (who advocate reducing hospital space and closing or selling superfluous inpatient facilities), and veterans groups (who see any reduction in inpatient care as a threat to the medical care needs of the veteran population).

Table 3. Department of Veterans Affairs Appropriations, FY1998-FY2002

(budget authority in billions)

FY1998	FY1999	FY2000	FY2001	FY2002
$42.41	$44.25	$46.04	$47.95	$51.14

Source: Figures for FY1998-FY2001 are from administration budget submissions of subsequent years; figures for FY2002 are from the House Committee on Appropriations, and are the latest available estimates for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

The CARES effort is an attempt to make the planning process by which the capital assets are developed, used, modified, or relinquished, open to veterans groups. Often, the fears about reductions in health care to veterans are based on an inadequate understanding of the improvements in care for more veterans that such realignment of resources makes possible, and the CARES approach may lessen those misunderstandings.

Some veterans have expressed the belief that, over time, moving resources from an inpatient facility in one area to outpatient access in another yields an unacceptable rate of deterioration in the former facility, as the commitment to maintain the building is diminished as the Department moves toward its eventual abandonment.

Burial and cemetery benefits. Payments to honor and help defray the cost of veterans' burials will total about $155 million in FY2003, and cover about 84 thousand burials, 69 thousand burial plots, 9 thousand service-connected deaths, 528 thousand flags, and 354 thousand headstones and markers.

Department administration. The Administration has requested $1.256 billion for General Operating Expenses (GOE) for FY2003, and $70 million for medical administration. Congress approved the Administration's request for funds for administration for FY2002, providing $1.2 billion for GOE and $67 million for medical administration. P.L. 106-377 included $1.050 billion of the requested $1.062 billion requested for GOE, and $62 million for medical administration for FY2001. P.L. 106-74 provided $913 million for GOE, and $60 million for administration of the medical care programs for FY2000.

VA employment estimates. The Bush Administration projects overall VA employment will decline to an average of 204,670 in FY2002, down from an average 205,896 during FY2001, which was up from an average of 202,621 during FY2000, and 205,547 in FY1999. Much of the decline will be in medical staff, which VA projects will average 179,300 during FY2002. Currently, VA projects that VA medical care slots will average 181,500 in FY2001. VA originally estimated that 179,206 medical care slots were needed for FY2001, compared to an 179,520 in FY2000, and 182,661 in FY1999.

The following table shows appropriations to VA for FY2001, the Administration's request for FY2002, amounts recommended by each House's version of H.R. 2620, and the amounts ultimately enacted by Congress and signed by the President.

Table 4. Appropriations: Department of Veterans Affairs, FY2002-FY2003

(budget authority in billions)

Program	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 enacted
Comp., pension, burial	24.944	26.524	--	--	--
Insurance/indemnities	.026	.028	--	--	--
Housing programs	.204	.438	--	--	--
Readjustment benefits	2.135	2.265	--	--	--
Subtotal: Mandatory	*27.309*	*29.254*	--	--	--
Medical care[a]	21.331	22.744	--	--	--
Med., prosthetic research	.371	.394	--	--	--
Medical Administration	.067	.070	--	--	--
General operating exp.	1.198	1.256	--	--	--
Admin. expense (hsng.)	.166	.169	--	--	--
Nat'l Cemetery Admin.	.121	.133	--	--	--
Inspector General	.052	.055	--	--	--
Construction, major	.183	.194	--	--	--
Construction, minor	.211	.211	--	--	--
Grants; state facilities	.100	.100	--	--	--
Parking, revolving fund	.004	.000	--	--	--
State veteran cemeteries	.025	.032	--	--	--
Subtotal: Discretionary	*23.829*	*25.359*	--	--	--
Subtotal: (VA)	**51.137**	**54.613**	**--**	**--**	**--**

Source: House Committee on Appropriations
Note: Rounding may cause discrepancies in subtotals.

[a]Medical Care Collections Fund (MCCF) receipts are restored to the Medical Care account as an offset equal to the revenue collected, estimated to be $691 million in FY2002 and $752 million in FY2003.

Accrual Accounting. Part of the Administration's budget estimate of a $4.4 billion increase in total VA spending for FY2003 does not reflect expanded program costs for additional benefits or medical services to veterans, but a change in methods by which future compensation for VA employees who will eventually retire is attributed to current service those employees perform. This new accounting method would result in the transfer of $892 million to central accounts in the Treasury to fund the accruing future cost of retirement and retiree health benefits for VA employees. Because the accrued funds would be retained in a government fund, this new accounting practice does not affect employees' benefits in any way, nor does it have a direct impact on taxpayers.

However, to cover the accrual payments, the changing practice makes the apparent current cost of VA employment somewhat higher, especially in the labor intensive medical programs, as appropriations to fund requested program levels must be higher than would otherwise be required to maintain the same level of services. Although there is no necessary reason for accrual accounting to make any difference in total government expenditures over time, the apparent higher current personnel costs for individual agencies may act as a psychological impetus to reduce personnel expenditures if Congress requires the agency to absorb the accrual transfer within an appropriation that does not increase to meet the new requirement. These changes in accounting appear to require legislation, and are not included in appropriations estimates in this report.

For additional information on VA programs, see CRS Report RL30803, *Veterans Issues in the 107th Congress,* by Dennis Snook.

Title II: Department of Housing and Urban Development

Introduction

Most of the appropriations for the Department of Housing and Urban Development (HUD) address the housing problems faced by households with very-low incomes or other special housing needs. Programs of rental assistance for the poor, elderly or handicapped, housing assistance for persons with AIDS, varying types of shelter for those who are homeless – all deal with the issue of the availability of affordable housing. The two large HUD block grant programs also help communities finance various efforts to address these housing issues. In the last half dozen years, HUD has focused more attention than previously on efforts to increase homeownership opportunities for lower-income households.

Highlights of Proposed HUD budget for FY2003

- Proposed FY2003 budget of $31.5 billion;
- All expiring Section 8 rental contracts are renewed;
- Additional housing choice vouchers of 33,400;
- Public Housing Capital Fund cut by $417 million;
- Initiative to convert public housing units to Section 8 assistance;

- Community Development Block Grants cut by $284.5 million;
- HOME up by $238 million, with $200 million for down payment assistance;
- Help for persons with AIDS increased to $292 million; and
- HUD to end acquisition of foreclosed FHA single-family homes.

Summary of budget proposals. The Administration presented its FY2003 budget for the Department of Housing and Urban Development (HUD) on February 4, 2002, the first budget that fully reflects its own vision for the agency, and for federal policy on housing and urban development. The proposal calls for $31.5 billion of discretionary budget authority, about $1.3 billion more than the $30.15 billion enacted for FY2002.[3] This budget could generally be viewed as one which roughly maintains the "status quo," since an increase of $1.4 billion is necessary to renew all 2.9 million expiring Section 8 contracts and to protect other tenants from losing their existing rental assistance.

A proposal to add 33,400 vouchers, at a cost of $204 million, would not significantly reduce the 4.9 million very low-income renter households who pay more than 50% of their income for shelter or who live in substandard housing, but who receive no federal assistance. Under the proposed budget, there would also be $260 million for 43,000 "tenant protection" vouchers for individuals who are currently receiving rental assistance, but who are threatened with the loss of that assistance. Examples include tenants in dilapidated public housing units being torn down or renters in Section 8 projects whose owners are opting out of the program or being terminated for cause.

The Public Housing Capital Fund, used to rehabilitate and modernize units, would be cut by $417 million, from $2.843 billion in FY2002 to $2.426 billion. The Public Housing Operating Fund would be increased by $35 million to $3.530 billion. The Administration's new Public Housing Reinvestment Initiative, could use up to $120 million of public housing capital funds and $130 million of operating funds to convert some of the 1.25 million public housing units to Section 8 project-based assistance. HUD claims that this would allow some Public Housing Authorities (PHAs) to secure private financing to rehabilitate or replace aging properties by pledging project-based revenue as collateral for loans for capital improvements.

The HOPE VI program, the purpose of which is to rehabilitate or tear down the worst public housing units, would receive $574 million, the same as provided for FY2002. HUD budget documents report that to date, 47,268 units have been demolished under HOPE VI. The program is scheduled to expire at the end of 2002, and over the next few months, and according to the budget, the Administration will propose legislation to reauthorize HOPE VI. H.R. 3995, the Housing Affordability for America Act of 2002, an omnibus housing bill introduced March 19, 2002, would reauthorize HOPE VI and amend the program.

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[3] The $30.15 billion excludes a $2 billion emergency supplemental appropriation made in late 2001 for aid to New York City.

The Community Development Block Grant (CDBG) program would be cut by $284.5 million, from $5.0 billion to $4.716 billion. Most of these funds, $4.43 billion in FY2003, would go to over 1,000 cities, urban counties, and states through formula grants. HUD is proposing to change the formula to reduce grants to the wealthiest 1% of communities, defined as those with per capita incomes two times the national average. The estimated $16 million savings from this proposal would be used to fund a regional initiative to increase the availability of affordable housing, economic opportunity, and infrastructure in the "Colonia." Colonias are communities within 150 miles of the U.S. Mexican border that are often described as having "third world" living conditions. HUD's budget statement says that these communities have greater needs and fewer resources, and are the appropriate targets for such funds.

Also as part of the CDBG program, the Administration proposes to end funding for what are called variously economic development initiatives, special purpose grants, or "earmarks." These grants received $294 million in FY2002, despite opposition from the Administration. The Self-Help Homeownership Opportunity Program (SHOP), a set-aside within CDBG used to support Habitat for Humanity and similar community building efforts, would be increased from $22 million in FY2002 to $65 million.

The HOME block grant program would be increased by $238 million to $2.08 billion, with the set-aside for the homeowner Downpayment Assistance Initiative increased from $50 million to $200 million. (Later in this report, *Increasing Homeownership*, discusses this and other Administration homeownership initiatives.)

HUD has a number of programs to protect vulnerable populations - the elderly, persons with physical and mental disabilities, individuals with HIV/AIDS, and the homeless. Funding for supportive services for elderly and disabled persons is recommended at $1.02 billion, the same as in FY2002. These funds are awarded through a competitive process to non-profit organizations to build new facilities for low-income residents. HUD is proposing that $30 million of the funds for the elderly be used to convert existing units for the elderly into assisted living facilities. Housing for persons with AIDS would receive $292 million, up by $15 million. Most of the grants are allocated by formula, based on the number of cases and highest incidence of AIDS. HUD reports that since 1999, the number of formula grantees has risen from 97 to an expected 111 in FY2003.

HUD proposes to spend $1.13 billion on programs for the homeless, about level with funding during the previous 2 years. Secretary Martinez says that ending chronic homelessness in the next 10 years is a top priority. The budget proposes to consolidate HUD's three largest homeless programs into one. Some organizations are concerned that HUD plans to change the current competitive grants process used to award funds under these three programs into a "formula grant" process. But HUD has not yet made this proposal. The Interagency Council on the Homeless would receive $1 million to better coordinate the many programs in HUD, the Departments of Health and Human Services, Veterans Affairs, and Labor, and other agencies. HUD also is proposing to transfer the $153 million Emergency Food and Shelter Program that is currently administered by FEMA to HUD in order to consolidate all emergency shelter assistance. The Senate Subcommittee on Housing and

Transportation has held hearings on the Bush Administration's proposed budget on the homeless and on the reauthorization of the McKinney-Vento Homeless Assistance Act housing program.

A Brief Look Back: FY2002 Appropriations. The President signed P.L. 107-73 on November 26, 2001 providing HUD with $30.15 billion for FY2002 (H.Rept. 107-272). This is $1.67 billion more than FY2001 appropriation of $28.48 billion, an increase of about 6%. Of the $30.15 billion approved, $16.28 billion, more than half of the HUD budget, is going to renew all Section 8 expiring contracts, add an additional 25,900 vouchers, and pay for contract administration and various tenant protection assistance.

Table 5. Department of Housing and Urban Development Appropriations, FY1998 to FY2002

(Net budget authority in billions)

FY1998	FY1999	FY2000	FY2001	FY2002
$21.44	**$24.08**	**$25.92**	**$28.48**[a]	**$32.15**[a]

Source: Figures for FY1998-FY2001 are from administration budget submissions of subsequent years; figures for FY2002 are from House Committee on Appropriations, and are the latest available estimates for the current fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

[a]Includes net effect of treating "excess" FHA mortgage insurance premiums as an offset against discretionary spending within the Federal Housing Administration. The offsets are an estimated -$2.246 billion for FY2001, and -$2.323 billion for FY2002. Because of the scoring change, the figures for FY2001 and FY2002 are not comparable to figures shown for previous fiscal years. The FY2002 figure includes $2 billion in emergency supplemental funds for the Community Development Fund for assistance to New York City following the terrorist attacks of September 11, 2001.

Policy Issue: The Shortage of Affordable Rental Housing

A budget is a statement of spending priorities. Despite the fact that HUD now spends almost all of its budget – an average of about $28 billion in recent years – to help low-income families with their housing costs, the shortage of *affordable* rental housing continues to be the most important housing issue before the Congress. (Housing that costs more than 30% of one's income is considered by the government to be excessively burdensome or "unaffordable".) In a February 5, 2002 conference held by the Urban Institute, *Preventing Homelessness: Meeting the Challenge*, researchers found that the number of homeless people in a number of large cities was increasing, and all attributed this to a growing shortage of affordable housing. Others believe this shortage is reducing the chances that welfare recipients will be able to achieve economic self-sufficiency. As it becomes increasingly clear from the new fiscal realities that there will be no large increases in spending for housing in the immediate years ahead, there is likely to be an increasing intense scrutiny of all existing federal resources devoted to housing to assure that these funds are efficiently addressing the most pressing issues.

Including the effect upon federal revenues of residential real estate-related tax provisions, and housing programs through HUD and the Department of Agriculture, the federal government now spends more than $140 billion on housing assistance. CBO estimates that nearly $55 billion of the mortgage interest and property tax deductions or "tax expenditures" (spending through the tax code) in FY2002 will be made for housing assistance to homeowners with annual incomes above $100,000. In comparison, the requested budget for HUD for FY2003, at $31.5 billion, is substantially less in real terms than was spent 2 decades ago.[4]

Since most of the HUD budget addresses the shortage of rental housing, and because many mayors and governors and other elected officials believe the problem has become serious, this report reviews this issue in some detail. The shortage of affordable housing is a complex matter with many dimensions, including the often overlooked but important role that local governments play, too often some say, as part of the problem. There are many statistics available for advocates who argue that more federal assistance is needed. HUD reported in 2001 that 1999 American Housing Survey data from the U.S. Census Bureau showed 4.9 million "worst case" households, those with incomes below 50% of the local area median ("*very-low incomes*") who pay more than 50% of their income for housing or live in substandard housing, but who receive no assistance because of limited funding.[5] These same data showed that in 1999, 44% of *extremely low-income* renters, about 3.75 million households, were in the worst case situation. To put these median incomes into more meaningful perspective, on a national basis, those with very-low incomes would be households with recent incomes below about $21,000. Those with extremely low-incomes had incomes below $13,000.

Those who support more federal efforts to help low-income households with their housing costs generally want either more funds for housing vouchers or more funds to encourage the construction of affordable rental housing, or both. HUD Secretary Martinez says he favors housing vouchers over subsidized housing production to address the affordability issue and does not support another rental housing production program. He points out that there are already government programs that can and are being used to produce affordable rental housing.

The agency does not have a long-term goal of increasing the number of worst-case families who can be helped with housing assistance. In fact, some critics of HUD programs say that because there is generally no shortage of units available in most communities, the affordability issue is not a housing issue at all, but an income issue. They argue that a better way to respond to worse-case renters is through government efforts to help low-income households become more productive, which could translate to higher incomes. Presumably this would mean they would not need federal housing assistance, or not as much of it.

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[4] The HUD budget peaked at $33.5 billion in FY1981 (about $67.6 billion in 2002 dollars) and declined to $14 billion in 1987.

[5] *Report On Worst Case Housing Needs In 1999: New Opportunity Amid Continuing Challenges. Executive Summary*. January 2001. U.S. Department of Housing and Urban Development. Office of Policy Development and Research.

The Administration seems to favor this approach. The FY2003 budget says "....HUD would fail in its mission if families were not moving towards eventual self-sufficiency. An important measure of HUD's success should be the number of families that no longer need to reside in assisted housing because they have moved to safe, decent, and affordable private housing." The Administration (and the Clinton Administration before it) has placed increasing emphasis on promoting homeownership for lower-income families in the belief that this is an effective way to move families towards self-sufficiency and wealth accumulation.

A brief history of federal housing assistance. In the Housing Act of 1949, Congress established a national goal of providing: "a decent home and suitable living environment for every American family." Much progress was made in the next 2 decades in eliminating substandard housing as many of the nation's worst slums were torn down. But against the backdrop of the inner city riots of the 1960s and the recommendations of the 1967 Douglas Commission, the 1968 Kaiser Committee, and the 1968 Kerner Commission on Civil Disorders, Congress adopted the Housing Act of 1968 which set a specific 10-year goal of building 6 million housing units for low- and moderate-income families.

Federally-subsidized housing production increased from 91,000 in 1967 to 166,000 in 1968; 200,000 in 1969, 430,000 in each of 1970 and 1971, and 339,000 in 1972. During the 4 years from 1968-1972, there was also a total of about 200,000 units rehabilitated with federal subsidies and 2,200,000 mobile homes built, the latter considered an important source of affordable housing for lower-income households.[6]

During the 1970s, attention on housing issues changed from its previous focus on the problem of too many substandard housing units, to the problem of housing being too expensive for lower-income families to afford. In effect, the 1949 Housing Act paved the way for the more elusive goal of making it possible for all families to have a decent *affordable* home and suitable living environment.

The problem of substandard housing has not been entirely eliminated. Data from 1999 show more than 2.5 million housing units lacked some or all plumbing facilities, with nearly a million without a bathtub or shower, and over 900,000 without a flush toilet. Yet, the quality of the housing built in the past 25 years and the level of amenities provided or required, such as off-street parking, wide sidewalks and roads, air conditioning, landscaping, health, safety, and environmental protections, had so upgraded housing and neighborhoods that many lower income families could not afford it. The policy objective of improving the minimum standard for housing began to conflict with the objective of increasing the availability of affordable housing.

Reducing the size and level of amenities is only one of the many dimensions of the affordability issue. Some point out that many of the recent immigrants to the United States come from a culture of extended families, thus needing larger units, not smaller. Some lower income households cope with high housing costs by sharing a

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[6] U.S. Department of Housing and Urban Development. *Housing in the Seventies*. A Report of the National Housing Policy Review, 1974.

single-family home or apartment, sometimes two or three households in a unit meant for one.

During the latter half of the 1970s, HUD began phasing out its involvement in subsidizing new housing construction. By the early 1980s, this withdrawal was nearly complete and the shift towards subsidizing existing units with housing vouchers was well underway.

Since the 1980s, there has been no obvious consensus as to what should be done to improve housing opportunities for those with difficulties finding adequate housing. Beginning in 1982, the number of *additional* rental units receiving assistance under HUD dropped sharply. In 1986, Congress replaced a number of existing rental housing tax provisions that were thought to be poorly targeted, with the Low Income Housing Tax Credit program, a tax incentive to encourage developers to build apartments affordable to households with incomes no greater than 60% of the local area median. After a slow start, the number of subsidized units built or rehabilitated averaged about 50,000 to 60,000 a year during most of the 1990s.

During the 1990s (and continuing), there was also a small number of apartments built or rehabilitated under HUD's Section 202 program for the elderly and under the HOME and Community Development Block Grant programs. Perhaps as many as 30,000 additional units were added each year during the 1990s by these other HUD programs. But it is also important to remember that during each of the last 3 decades, hundreds of thousands of older or obsolete rentals (many shabby but affordable), including "trailer parks" in urban areas, and most of the remaining inner-city "single-room-occupancy" "hotel" units (including many YMCA/YWCA facilities that provided shelter to the near-homeless), were torn down.

After a number of years in which no new housing vouchers were added, Congress appropriated money for 50,000 additional vouchers in FY1999 and 60,000 in FY2000. The Clinton Administration recommended 120,000 additional vouchers for FY2001, with 79,000 approved. The Bush Administration requested 34,000 additional vouchers for FY2002; 25,900 were funded. As noted, HUD is recommending 33,400 additional vouchers for FY2003.

Is there available housing at an affordable price? With the exception of some cities in the Northeast, West Coast, and a few other places, most areas have an adequate supply of modern apartments - those with large kitchens and baths, high ceilings, fireplaces, exercise facilities, enclosed balconies, covered parking, and other amenities. But restrictive zoning, building codes, health and safety and environmental regulations, and local opposition have made it difficult to construct basic no-frills rental housing affordable to lower-income households. The smaller apartment units built in the 1940s and 1950s with 500 square feet or less, with no walk-in closets or in-unit washer-dryers, with small kitchens and baths, and with no on-site parking, are much sought after in older cites because of their low rents, but they cannot be built today under current laws.

The strong rental markets in middle-income and rehabilitated areas of cities have not escaped the attention of Section 8 landlords whose buildings have been set aside for lower-income families under long-term federal contracts. As more profitable alternatives presented themselves during the prosperous 1990s, some owners decided not to renew their expiring contracts. Older apartment buildings, with their lower rents, continue to be torn down or renovated for a more upscale and profitable market. Mobile home parks that provide relatively affordable housing have largely disappeared from most large metropolitan areas. Since it is so difficult to build new affordable rental housing, a first line of defense by housing advocates is to try to preserve the affordable rental stock that currently exists. Nevertheless, a significant number of these units are lost each year.

There is no shortage of statistics, reports, studies, and commissions documenting the difficulties that lower-income people have in finding affordable housing. The National Low Income Housing Coalition has done extensive research showing the hourly wage a household would have to earn (with one wage earner or more), to afford the rent on a "standard" apartment in major cities across the country.[7] Their research finds that in most major cities and counties, it is highly unlikely that households earning near the minimum wage of $5.15 an hour or even $6, $8, or $10 an hour, can find an affordable apartment. Waiting lists for rental assistance in most major cities are so long that no others are allowed to be added.

The National Housing Conference (NHC) examined recent American Housing Survey data, looking at households with low to moderate incomes, those with incomes from 80% to 120% of the local area median income (nationally, about $33,000 to $50,000). The NHC reported that the number of these households with critical housing needs (paying more than 50% of their income for shelter) had sharply increased between 1997 and 1999. These households are much less likely to receive government rental assistance than those with incomes below 50% of the local median.

The NHC concluded that affordable housing problems had moved up the income ladder. Police, teachers, fire fighters, and other public municipal employees, who have been cited in the media as having problems affording housing, generally fall into this 80% to 120% median income category. (Although two-earner families, for example, a police officer and teacher, can often reach securely into the middle-class.) The NHC concluded that simply having a full-time job does not guarantee a family a decent place to live at an affordable cost. Among its findings: "More than 220,000 teachers, police, and public safety officers across the country spend more than half their income for housing, and the problem is growing worse."[8]

Local governments are often reluctant to adopt policy approaches that may attract low-income households, the mentally and physically handicapped, ex-felons, many of the estimated 8 to 10 million illegal aliens, and others – partly, some say, because of their negative fiscal impact. Many of these households would pay much

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[7] *Out of Reach 2001: America's Growing Wage-Rent Disparity,* can be found at [www.nlihc.org].

[8] The Center for Housing Policy (a research affiliate of the National Housing Conference), *Housing America's Working Families,* New Century Housing, Washington, D.C., June 2000. p. 2.

less in local taxes than the cost of providing schools, police, fire and rescue, trash collection, and other social services.

Many homeowners may believe that affordable rental units built near their homes would lower their property values, and resist local government efforts to increase the supply of low-income housing in their neighborhoods. The result is that very-low-income households or even those not quite so poor, are heavily concentrated in particular neighborhoods, and local officials in these areas often find it necessary to look the other way as many apartments are shared by two or three families in violation of local laws.

Increasing the supply of affordable housing. Aside from the issue of how much additional money could or should be spent to address the housing affordability problem, the question remains of how funds could best be spent towards achieving the 1949 national housing goal. Housing analysts inside and outside of HUD, elected officials, and others have been debating for decades the relative advantages and disadvantages of "tenant-based" rental assistance and "project-based" assistance. In simple terms, this usually means whether to use housing vouchers to assist individual households, or to subsidize the construction (or rehabilitation) of more housing. Knowing when each type of assistance is most appropriate requires a knowledge of local housing market conditions. The discussion that follows reviews this on-going debate.

Voucher utilization rates. In the past few years, there has been growing concern that not all of the housing vouchers awarded to local public housing authorities have been put to use. Some households with vouchers have found it difficult or impossible to find an apartment within the time period for which the voucher is approved. An increasing number of vouchers have been returned unused (although these vouchers are often given to someone else who does succeed in finding appropriate housing).

In recent years, arguments have surfaced in Congress that because not all vouchers are used, there is less reason to increase the number of vouchers. Both HUD and the VA-HUD appropriation committees expressed concern (H.Rept. 107-159) that the average utilization of vouchers has fallen from 96.7% in FY1999, to an estimated 92.4% in FY2001. (However, HUD documents claim that the utilization rate for 2000-2001 was 96%.)

The 33,400 additional vouchers that HUD is proposing for FY2003 would only be awarded to PHAs with a voucher utilization rate of 97% or greater. Some PHAs with lower voucher utilization rates have tried, with limited success, to better inform landlords about the voucher program, and to encourage more to participate in it by offering various incentives. Some voucher holders have been provided transportation to assist them with their search, and help with security deposits. Nevertheless, where vacancy rates are very low, it may have become prohibitively expensive on a per-unit basis for PHAs to try to locate additional units for voucher holders.

Rental vacancy rates. In one of the many paradoxes of housing policy, the national vacancy rate for rental housing reached a record high of 9.1% in the 1st quarter of 2002, jumping from 8.2% in the 1st quarter of 2001, while statistics show a serious shortage of affordable rental housing in many metropolitan areas. A vacancy rate above 5% is often considered adequate for a marketplace to function without difficulty. Vacancy rates for 2001 varied widely across the country: Atlanta, 11.9%; Louisville, 10.8%; Houston, 11.1%; West Palm Beach, 18.0%, New York, 3.6%; Boston, 2.9%; Los Angeles, 3.4%, San Francisco, 3.4%; and Jacksonville, 4.6%. As noted, low vacancy rates make it more difficult to use a voucher. Many landlords who have a choice of tenants will not pick very low-income families, with (or without) vouchers.

Some landlords are unwilling to accept vouchers because they want to avoid the bureaucratic "red tape" of the program, or because they believe, rightly or not, that low-income families will cause problems. A few local governments have recently adopted laws requiring landlords to accept renters with vouchers, although landlords can often reject a voucher holder because of bad credit, lack of references, and for other reasons. Reports also continue to show that discrimination in rental housing on the basis of race and against households with children is still common, which makes the use of vouchers more difficult.

But as this review has suggested, vacancy rates tell only part of the story about the shortage of affordable housing. A higher vacancy rate may not help a very low-income household if the available units are too expensive. Furthermore, statistics on vacancies can be misleading. Many large cities have tens of thousands of boarded-up rental units. For example, Philadelphia lists more than 14,000 housing units as abandoned.

Many vacant units are or were owned by landlords who could not charge their very low-income renters enough to pay the cost of operating the units. Other landlords struggle to survive, letting their buildings deteriorate over time. Among the policy questions this raises – Would more housing vouchers, if made available to very low-income renters in marginally profitable buildings, help landlords to continue operating often shabby but affordable units? With increased rent revenue, some of these units that may have housing code violations, could be brought up to code. A related policy issue is the advisability of new federally-subsidized apartment buildings being built near these struggling landlords. Some think this could make it even more difficult for marginally profitable landlords to compete and stay in business.

Increasing the number receiving assistance by adding vouchers. The HUD Secretary is now on record as not being in support of a new HUD program to subsidize the construction of affordable rental housing. He instead favors housing vouchers because of the freedom of mobility they offer to low-income renters. In theory at least, a family with a voucher can move out of a poorly maintained building or a dangerous neighborhood and go to a safer one with better schools and more job opportunities. However, as the above discussion has indicated, the freedom of a voucher holder can be quite limited. Those who do not have automobiles are also very limited in where they can live. Most of the $31.5 billion proposed for HUD in FY2003 would continue housing assistance for the approximately 5.5 million housing renters now receiving federal rental assistance – through the Section 8, public housing, HOME, and CDBG programs, and several others.

At a recent congressional hearing on the FY2003 budget, some concern was expressed at the increasing cost of the Section 8 program. It will cost almost $1.4 billion more in FY2003 just to renew all 2.9 million Section 8 contracts and protect some vulnerable groups from losing their current rental assistance. The proposed $17.5 billion for the Housing Certificate Fund (largely Section 8) will account for well over half of the total HUD budget. There are a number of reasons why Section 8 costs continue to increase rapidly, the main one being that rents have increased significantly.

Last year, in 39 tight rental markets, HUD began permitting the allowable rent level (Fair Market Rents) for units eligible for vouchers to be based on the 50th percentile for the local rental housing market rather than the previous 40th percentile. Since voucher holders generally pay 30% of their income towards the rent, with the government paying the rest, allowing units with higher rents to be eligible means a higher cost to the government. Also, major housing legislation passed several years ago (P.L. 105-276, The Quality Housing and Responsibility Act of 1998), requires that 75% of all new households getting vouchers have to have incomes below 30% of the local area median. More voucher holders with even lower incomes than previously means that these new households will require a larger rental subsidy. The cost of an average voucher is now about $6,000 a year. Just for illustrative purposes, one million additional vouchers would cost $6 billion a year.

Increasing rental housing production. The difficulty of using vouchers in some areas has led to legislative proposals for a new HUD program devoted solely to the development of rental housing for extremely low-income households. Referring to the limited value of vouchers in many tight rental markets, the Senate Appropriations Committee expressed its concerns in 2001 that "families with vouchers often have little choice in their rental decisions, leaving them often in low-income and very low-income neighborhoods and living in substandard housing."

Using mortgage insurance reserves to fund additional rental construction. Several bills (H.R. 2349; S. 1248; S. 652) introduced in the 107th Congress seek to influence the production of rental housing, by stimulating construction through a "trust fund" financed by what some believe to be "excess" reserves of a mortgage insurance premium pool. Others point out that the so-called excess reserves are not idle pools of unutilized capital, but federal funds booked for insurance purposes, and treated like other federal revenue. Thus, these excess reserves cannot be used as if the reserves were unspent resources.

A simplified explanation of this funding dispute is as follows. HUD operates a successful mortgage insurance business under the Federal Housing Administration (FHA) program. During the strong economy of the 1990s, this insurance business was very profitable for HUD – the premiums were much larger than the expenses from defaults on loans. A serious economic downturn, with increased unemployment, would increase the number of mortgage defaults. Then, more of the reserves would have to be used to pay off the loans held by lenders, and also be used by HUD to fix up properties and to pay real estate agents to sell these homes. Each default could cost the FHA tens of thousands of dollars. Thus, because of the uncertainties of the economy in the years ahead, the insurance program must keep a certain amount of the profits as rainy day "reserves".

Supporters of using the measurable growth in the trust fund believe the reserves are more than required by law and more then enough to cover future needs and, as noted, they want to tap some of the "excess reserves" for a housing trust fund. However, these reserves are already being used to support both the HUD and the federal budget. HUD budget figures show that $2.3 billion of "negative subsidy" from FHA insurance program income has been used to offset appropriation levels that would otherwise have been required to maintain the same level of program expenditures in FY2002, and $2.8 billion is proposed to be used in FY2003. The FHA program is, in effect, providing spending authority represented by these reserves to the rest of HUD.

The debate over the reserves is largely academic. Both sides agree that if Congress were to redirect part of the FHA reserves into a housing trust fund, there would have to be additional appropriations to make up for the reserves already built into the budget.

There is another view that instead of using the growing FHA reserves for rental housing production, the insurance premiums should be lowered to more closely approximate the estimate of future needs. S.607 would do this. Even some who support efforts to increase the production of affordable rental housing are uneasy about using the FHA reserves since these reserves come from charging higher than necessary insurance premiums that are paid largely by low- and moderate-income households, including many minority families. To some, this would constitute a regressive method of funding a rental production program.

Are there other options for obtaining more affordable rental housing? Some point to the Congressional Budget Office report of February 2001, *Budget Options: Restrict Itemized Deductions, Credits. And Exclusions Under the Income Tax*. One of the options identified by CBO to increase federal revenues is: limit the mortgage principal on which interest can be deducted to $300,000. Taxpayers may now deduct interest on up to $1 million of mortgage debt used to buy and improve a first and second home. CBO says that reducing the eligible amount of debt for the mortgage interest deduction from $1 million to $300,000 would trim deductions for 1.2 million taxpayers with large mortgages and increase revenues by $55.8 billion over the 2002-2011 period. Some argue that this would be a less regressive option to fund a rental housing production program for extremely low-income families. Limiting deductions to the interest on not more than $300,000 of mortgage debt would affect high-cost areas such as San Francisco, Los Angeles, New York, and Boston. It is probably no coincidence that these are the areas that have some of the lowest rental vacancy rates in the country, and the most severe shortages of affordable rental housing.

Another option for addressing the shortage of affordable rental housing is to encourage more local governments to use "inclusionary zoning," which requires home builders to construct and set-aside a minimum percentage of new units in a specific residential development that are affordable to a particular income level. (See Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis? *The Center for Housing Policy*. October 2000, for the pros and cons of this approach and how it has worked in Montgomery County, Maryland.)

Lower income and minority homeownership initiatives. Since the early to mid-1990s, many in Congress have expressed interest in expanding homeownership opportunities for lower income and minority families. The real estate industry – the homebuilders and real estate agents – was interested because most of the baby boomers, those born between 1946 and 1964, were past the time when most purchased a first home. The national homeownership rate stood at 68.0% at the end of 2001. The rate for minorities, and for many central cities, has increased considerably in recent years but still remains slightly below 50%, while the rate for non-Hispanic whites reached 74.4% in the fourth quarter of 2001. For households with heads age 55 years or older, the homeownership rate is above 80%. HUD's 1999 American Housing Survey shows that 92% of households with annual incomes above $120,000 are homeowners.

Table 6. Appropriations: Housing and Urban Development, FY2002-FY2003

(budget authority in billions)

Program	FY2002 Enacted	FY2003 Request	FY2003 House	FY2003 Senate	FY2003 Confer.
Housing certificate fund	15.641	17.527	--	--	--
Appropriation	*11.441*	*13.327*	--	--	--
Advance appropriation	*4.200*	*4.200*	--	--	--
Section 8 recaptures (rescissions)	-1.200	-1.100	--	--	--
Public housing capital fund	2.843	2.426	--	--	--
Pub. housing operat. fund	3.495	3.530	--	--	--
Revitalization of distressed public housing (HOPE VI)	.574	.574	--	--	--
Native American housing block grants	.649	.647	--	--	--
Indian housing loan guar.	.006	.005	--	--	--
Native Hawaiian loan guar.	.001	.001	--	--	--
Hsng., persons with AIDS	.277	.292	--	--	--
Rural Housing; Economic Development	.025	.000	--	--	--
Empowerment zones; enterprise communities	.045	.000	--	--	--
Community Devel. Blk. Grant	5.000	4.716	--	--	--
Comm. Devel. Fund (emergency supplemental)[a]	2.000	.000	--	--	--
Sec.108 loan guar.; subsidy	.015	.007	--	--	--
Brownfields redevelopment	.025	.025	--	--	--
HOME Invest. Partnerships	1.846	2.084	--	--	--
Homeless Assist. Grants	1.123	1.130	--	--	--

Program	FY2002 Enacted	FY2003 Request	FY2003 House	FY2003 Senate	FY2003 Confer.
Housing for special populations	1.024	1.024	--	--	--
Housing for the elderly	*.783*	*.774*	--	--	--
Housing for the disabled	*.241*	*.251*	--	--	--
Hsg. counseling assistance	.000	.035	--	--	--
Federal Housing Admin. (net)[b]	-1.671	-2.207	--	--	--
GNMA (net)[c]	-.373	-.347	--	--	--
Research and technology	.050	.047	--	--	--
Fair housing activities	.046	.046	--	--	--
Office of lead hazard control	.110	.126	--	--	--
Salaries and expenses	.556	.510	--	--	--
Inspector General	.067	.075	--	--	--
Working capital fund	.000	.277	--	--	--
Rescissions; legislative savings; supplemental	-.025	.000	--	--	--
Subtotal (HUD) net	**32.149**	**31.450**	**--**	**--**	**--**

Source: House Committee on Appropriations

Note: Rounding may cause discrepancies in subtotals.

[a] Emergency supplemental for assistance to the City of New York, following terrorist attacks on September 11, 2001.
[b] Net, interagency transfers and offsetting receipts against appropriations of the current year; included in the totals are projected experience gains greater than premiums to the mortgage insurance fund, which are now treated as offsetting receipts against discretionary funds. The effect is estimated to be $-2.323 billion for FY2002, and -$2.753 for FY2003.
[c] Net, interagency transfers and offsetting receipts against appropriations of the current year.

The Bush Administration is proposing several homeownership initiatives in its proposed budget for FY2003. One would set aside $200 million within the HOME block grant program for a Downpayment Assistance Fund, which would provide a $3-for-$1 match of third-party contributions, up to a maximum of $1,500. This same proposal was introduced for FY2002. While the Administration is again proposing a $200 million set-aside for downpayment assistance, this year HUD is proposing to increase the HOME program by $238 million, enough so that regular formula grants would not have to be reduced to fund the downpayment program. (See the section on the HOME program below for more on last year's debate over this proposal.)

HUD is also proposing to triple the set-aside in the Community Development Block Grant program to fund the Self-Help Homeownership Opportunity Program (SHOP) – from $22 million in FY2002 to $65 million in FY2003. Under SHOP, grants are made to national and regional non-profit organizations such as Habitat for

Humanity. Homebuyers must contribute significant amounts of volunteer labor to the construction or rehabilitation of the property. The proposed $65 million is expected to help produce approximately 3,800 new homes for very low-income families. HUD is proposing to increase funding for housing counseling from $20 million in FY2002 to $35 million in FY2003. Counseling is used to help potential buyers understand the process of purchasing a home and the responsibilities that come with homeownership. Counseling has also proven effective in helping homeowners keep their home in times of financial stress and to avoid some of the worst aspects of predatory lending.

Another Administration homeownership initiative that was introduced last year and re-introduced this year would create a $1.7 billion tax credit over 5 years to support the rehabilitation or new construction of an estimated 100,000 homes for purchase by low-income households. This would be a provision in the federal tax code, not a HUD program. According to a draft proposal, the new homes would be targeted to census tracts with incomes no greater than 80% of the local area median and to families making 80% or less of the local area median income.

Housing Certificate Fund: A Closer Look

Funding sources and disbursements. The Housing Certificate Fund (HCF) is the major disbursing mechanism through which HUD provides funding to local entities responsible for administering project-based housing programs and direct low-income rental housing subsidies (vouchers). The Administration is requesting $17.5 billion for the Housing Certificate Fund in FY2003. According to Administration estimates, this amount includes a direct appropriation of $16.9 billion plus a carry-over of $640 million in Section 8 reserve funds from previous years, for a total increase of nearly $2.0 billion over the FY2002 funding level of $15.6 billion. Of this amount, the Administration is requesting $16.9 billion for Section 8 contract renewals, $204 million for 34,000 incremental vouchers to add new families to the assisted housing rolls, $196 million for tenant protection, $260 million for contract administration, and $3 million for the working capital fund. These vouchers would be distributed to public housing agencies that have demonstrated their ability to effectively use the vouchers they have been given in the past.

Section 8 Expiring Contract Renewals. The HCF finances provisions of Section 8 of the Housing Act of 1937 (as amended). Broadly referred to as Section 8 programs, these HUD programs subsidize rental housing for low-income families, using several avenues for administering such assistance. Approximately 3 million families will be assisted under Section 8 in FY2003. The largest portion of the Administration's request is $16.9 billion in new budget authority for funds to renew expiring Section 8 rental contracts in FY2003. This amount will be used for the renewal of approximately 817,000 project-based units and 2.1 million tenant-based units in FY2003.

In addition to these contract renewals, $52 million of the $16.9 billion appropriated under this heading will be used to fund Family Self-Sufficiency Coordinators for a renewal term of 1 year.

Section 8 Incremental Vouchers. The President's budget request includes $204 million to fund approximately 34,000 incremental vouchers in FY2003. These vouchers will be provided to PHAs that have demonstrated their ability to use their existing vouchers (having a utilization rate of at least 97%). Of the requested amount for incremental vouchers, $164 million is targeted for specific use vouchers such as assistance for homeless veterans, assistance for families on the road to self-sufficiency and as downpayment assistance for homeownership. The Bush Administration strongly supports the use of Section 8 vouchers as downpayment assistance for homeownership by low-income families, and encourages PHAs to strengthen their ability to assist such families in becoming homeowners.

The President's budget request also earmarks $6 million of the $164 million for incremental vouchers to fund 1,000 vouchers to be used for persons with mental disabilities to assist states in meeting a federal court requirement that mentally disabled individuals be housed in community settings with services whenever possible.

The remaining $40 million is to be used to provide rental vouchers for non-elderly disabled individuals who are now residing in public housing projects that have been designated for occupancy by the elderly. The amount is expected to fund approximately 6,000 vouchers which will help integrate them into mainstream privately-owned housing.

The Administration's budget request also provides $196 million for Section 8 contract administration. These contract administration funds would be provided to the many state and local housing agencies that act as HUD's agent in administering the Section 8 project-based program. These agencies are responsible for the oversight of the physical and financial condition of projects funded under nearly 20,000 contracts between HUD and individual project owners.

The following table shows the Administration's request for FY2003 funding for the Housing Certificate Fund, using the Administration's estimates, and estimates from the House Committee on Appropriations.

Tenant Protection Vouchers. The President's budget requests $260 million for tenant protection vouchers in FY2003. HUD estimates that this amount would finance approximately 43,000 vouchers for individuals who are currently receiving rental assistance, but who are in danger of losing the subsidy because their units are being demolished, the owner of their development is "opting out" of the program, or for some other reason.

Public housing programs. There are about 3,050 public housing authorities (PHAs) that manage 1.25 million housing units. The common perception of public housing, formed during the 1980s and much of the 1990s, is often one of the mismanagement of dilapidated projects housing very poor single-parent households with few marketable skills, youth gangs, high crime rates, and drug use. This picture has too often been accurate for a small number of the largest inner city projects where the worst problems have been concentrated.

However, many smaller projects outside of the inner city are well run and in relatively good condition. Legislation passed during the past half dozen years has begun to target problems in the worst projects. The HOPE VI program has received high marks towards achieving its goal of tearing down the worst 100,000 units, largely high-rise complexes in inner city areas, and replacing them with lower density garden apartments and townhouses (see HOPE VI below).

Recent legislation has also made it easier to evict those involved in criminal activity under the "one-strike-and-you're-out" rule (Anti-Drug Abuse Act of 1988). On March 26, 2002, the Supreme Court (HUD v. Rucker), unanimously upheld the one-strike rule, affirming that a PHA can evict a tenant who may have no knowledge of drug-related activities committed by another occupant or guest of the housing unit on or off the public housing premises.

Table 7. Requested Spending for the Housing Certificate Fund (HCF), Administration and Congressional Estimates, FY2003

($ in billions)

HCF Programs	President's request (HUD estimates)	President's request (Congress. estimates)	FY2003 House	FY2003 Senate	Confer.
Housing Certificate Fund	**17.527**	**17.527**	--	--	--
FY2003 Appropriations (Table 6)	*16.887*	*13.327*	--	--	--
Advance appropriations from previous years	--	*4.200*	--	--	--
Carry-over of reserve funds from previous fiscal years	*.640*	--	--	--	--
Housing Certificate Fund:	--	--	--	--	--
Expiring Sec. 8 Contracts	*16.864*	--	--	--	--
FFS Co-ordinators	*(.052)*	--	--	--	--
Incremental Vouchers	*.204*	--	--	--	--
Fair-share	*(.158)*	--	--	--	--
Olmstead Decision	*(.006)*	--	--	--	--
Non-Elderly Disabled	*(.040)*	--	--	--	--
Tenant Protection	*.260*	--	--	--	--
Contract Administration	*.196*	--	--	--	--
Working capital fund	*.003*	--	--	--	--

Source: Fiscal Year 2003 Budget Summary, Department of Housing and Urban Development; House Committee on Appropriations.

Note: Italics indicate lines subsumed under major heading for HCF in **Table 6** and **Table 7**.

Public Housing Operating Fund. HUD is requesting $3.530 billion for the Operating Fund for FY2003, $35 million more than the $3.495 billion enacted for FY2002. The Quality Housing and Work Responsibility Act of 1998 directed HUD to develop a new formula for allocating operating funds to the Public Housing Authorities. Since public housing is not part of the private marketplace that determines rent levels and requires landlords to compete for tenants, it has been difficult to set national cost standards and to hold PHAs accountable. HUD, through a Negotiated Rulemaking Committee, contracted with the Harvard Graduate School of Design (GSD) to conduct the Public Housing Operating Cost Study (PHOCS). However, continuing work on this new formula is proving difficult and controversial. The Council of Large Public Housing Agencies has faulted the progress of the GSD thus far and on April 10, 2002, recommended a new team of researchers to complete the final phase of work. An interim formula-based approach for allocating operating funds was implemented in FY2001 following regulatory negotiations as required by the 1998 Act, and HUD hopes to complete action on a final rule in FY2003.

Public Housing Capital Fund. This fund provides formula grants to PHAs to meet an estimated $20 billion backlog of rehabilitation and modernization needs. The rehabilitation of this housing is important to help ensure that these developments do not become so obsolete that they must be demolished. The proposal in the HUD budget for FY2003 to cut the capital fund by $417 million, from $2.843 billion in FY2002 to $2.426 billion, is certain to be controversial. It includes what the agency calls a "bold" experiment to bring about even more fundamental change to public housing than has already occurred in the past few years. HUD proposes a new financial initiative to allow up to $120 million of public housing capital funds and $130 million of operating funds to be used to convert some public housing units to Section 8 projected-based assistance. This would begin to make public housing more market-driven and to integrate it into the private capital markets – to make public housing less "public."

On a property-by-property basis, HUD would consider requests from Public Housing Authorities (PHAs) to participate in this initiative to change some units to project-based vouchers. HUD thinks that this would allow PHAs to secure private financing to rehabilitate or replace aging properties by pledging project-based revenue as collateral for loans for capital improvements. The agency believes that lenders will view the stream of Section 8 renewals as more predictable than capital fund appropriations, and thus, that at least some of the proposed cut of $417 million in capital funding can be replaced by private sector loans.

Some housing organizations have already expressed concern about this proposed experiment, asking that HUD at least wait for evidence on how well this new idea might work before cutting capital funds. In response to this concern, HUD Secretary Martinez told the Senate Banking Committee on February 13, 2002 that to the extent this pilot program does not generate at least $400 million of capital improvements, HUD will seek to restore the reduction of funds to the previous year's level in FY2004.

HOPE VI Revitalization of Distressed Public Housing. As noted above, HUD is transforming public housing through the use of HOPE VI grants by rehabilitating or demolishing severely distressed public housing units and replacing them with low-density, garden-style apartments or townhouses. Rather than filling them with only the poorest of the poor, as had usually been the case, the new housing has more mixed-income families – the poor, the not quite so poor, and some moderate-income households – in an effort to change the culture to one of more hope and opportunity for those residents who are willing to take advantage of new opportunities.

The Administration is requesting $574 million for HOPE VI grants in FY2003, the same as enacted for FY2002. Of this total, $5 million is designated for the Neighborhood Networks Initiative. Under this initiative, competitive grants are awarded to Public Housing Authorities for the establishment and initial operations of computer centers to increase resident self-sufficiency, employability, and economic self-reliance. Authority for the HOPE VI program is scheduled to end on September 30, 2002. Over the next few months the Administration will be proposing legislation to continue the program. An omnibus housing bill, H.R. 3995, introduced on March 19, 2002, would also reauthorize and amend the HOPE VI program.

For more information on HOPE VI, see CRS Report RL30589, *HOPE VI: The Revitalization of Severely Distressed Public Housing*, by Susan M. Vanhorenbeck.

Native American Block Grants. This block grant provides tribes or tribally designated housing entities with a flexible source of funding for affordable housing and related activities. As provided in the Native American Housing Assistance and Self-Determination Act, block grant funds may be used for a wide range of homeownership and rental activities. The Administration's FY2003 budget requests $647 million, slightly below the $649 million enacted in FY2002.

Housing for Persons with AIDS (HOPWA). President Bush requested $292 million for HOPWA for FY2003, up $15 million from the $277 million enacted in FY2002. HOPWA provides housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Funding is distributed both by formula allocation and competitive grants to states, localities and nonprofit organizations. HOPWA funds may be used for housing information services, resource identification to establish and coordinate housing assistance resources, to acquire, rehabilitate or lease housing and services, to construct single room occupancy dwelling and community residences, for rental assistance and for short term rent. Funds may also be used for mortgage or utility payments to prevent homelessness of a tenant or mortgagor and for supportive services including health, mental health, drug and alcohol abuse treatment and counseling, day care, nutritional services and assistance in gaining access to local, state and federal government benefits.

In an evaluation released by HUD in December 2000, it was reported that the HOPWA program predominately serves extremely low-income (54%) and very low-income (27%) persons living with HIV/AIDS, and that in 1999 the HOPWA program was providing housing assistance to approximately 49,000 low-income persons living with HIV or AIDS. This is approximately one-sixth of the estimated 311,701 persons living with AIDS in the United States as of June, 2000 as reported by the Centers for Disease Control and Prevention (CDC). The CDC reported that through June 2001, the number of HIV infections reported in states with confidential HIV reporting (34 states and two territories) was 134,505 for a cumulative total of 466,023 persons identified as being HIV positive or of having AIDS. Since many states are not yet reporting on HIV, the CDC estimates that 800,000 to 900,000 Americans are actually living with HIV or AIDS.

For more information on HOPWA, see CRS Report RS20704, *Housing Opportunities for Persons with AIDS (HOPWA)* by M. Ann Wolfe.

Rural Housing and Economic Development. The FY1999 HUD Appropriations Act (P.L. 105-276) established within HUD an Office of Rural Housing and Economic Development to support housing and economic development in rural areas. It received $25 million in both FY2001 and FY2002. The Administration is not requesting funds for this program for FY2003 (it did not ask for funds for FY2002 either), arguing that many of the agency'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. Last year, the House agreed with the Administration and did not include any funds for this office. The Senate recommended $25 million and the conferees approved $25 million with language requiring that the funds be awarded competitively by June 1, 2002.

Empowerment Zones and Enterprise Communities. This initiative is an interagency effort to promote economic development and community revitalization in distressed areas, by directing tax relief and federal funds to designated Empowerment Zones (EZs) and Enterprise Communities (ECs). EZs and ECs are eligible for a variety of tax credits and other incentives intended to stimulate investment, economic growth, and revitalization activities. Grants are used for activities that assist residents and businesses, including workforce preparation and job creation efforts linked to welfare reform; neighborhood development; support for financing capital projects; financing of projects in conjunction with Section 108 loans or other economic development projects. Funds are also used for rental assistance and other housing assistance.

To date, there have been three rounds of EZ/EC designations. In the first round, nine communities (six urban and three rural) were designated as Empowerment Zones and 95 communities were named as Enterprise Communities. Twenty new Empowerment Zones – 15 urban and 5 rural – were designated in the Round II competition, along with 20 new Enterprise Communities, all rural. The 2000 Community Renewal Tax Relief Act authorized the designation of 40 renewal communities (28 urban and 12 rural) and nine new Round III Empowerment Zones (seven urban, two rural) designated on December 21, 2001, which utilize only tax incentive provisions.

In FY2002, $45 million was approved for urban EZs - $3 million each for the 15 Round II zones designated by HUD. The Administration's FY2003 budget proposes no funding for Round II Empowerment Zones because after 4 years of funding, major balances of unused funds have been built up. To help develop the economies of distressed urban and rural areas, HUD has recently designated 40 Renewal Communities (RZs) and seven additional Round II urban Empowerment

Zones. Private investors in both RZ and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations.

Community Development Fund (Community Development Block Grants). The Bush Administration's FY2003 budget proposes $4.716 billion for CDBG, including $279.5 million for program set-asides, and $4.436 billion in formula-based grants to entitlement communities, states, and insular areas. The Administration's budget request would increase the formula-based portion of the program by $95 million for FY2003 and it would convert Section 107 funding for insular areas into a formula-based allocation.

The Administration is also requesting approval for its new *Colonias* Gateway Initiative. This regional initiative would be targeted to communities in Texas, New Mexico, Arizona, and California within 150 miles of the border with Mexico. Funds would be used for housing, infrastructure, and economic development projects in these distressed areas. The Administration is also proposing to fund this $16 million initiative with the savings achieved from a proposed legislative change that would reduce funding for CDBG entitlement communities with per capita incomes that are twice the national average or higher. Currently, HUD estimates that there are 13 communities with per capita incomes that meet or exceed the proposed threshold, although this could change as figures from the 2000 Census become available (see **Table 8**).

Table 8. Community Development Block Grants (CDBG): Entitlement Communities with Per Capita Income At Least Twice the National Average

Community	Per capita income as a multiple of the national average
Newport Beach, California	*3.2*
Palo Alto, California	*2.3*
Santa Monica, California	*2.0*
Colorado Springs, Colorado	*3.1*
Greenwich, Connecticut	*3.2*
Naples, Florida	*2.9*
Brookline, Massachusetts	*2.0*
Malden, Massachusetts	*2.2*
Newton, Massachusetts	*2.0*
Westchester County, New York	*2.1*
Lower Merion, Pennsylvania	*2.9*
Penn Hills, Pennsylvania	*2.8*
Virginia Beach, Virginia	*2.6*

Source: HUD Budget Submission, FY2003

The CDBG is the largest source of federal financial assistance in support of housing, neighborhood revitalization, and community and economic development efforts of state and local governments. After funds are allocated for the various set asides under CDBG, 70% of the remaining appropriated funds are allocated by formula to entitlement communities. These include metropolitan cities with populations of 50,000 or more, central cities, and urban counties. Currently, 1,023 communities (865 cities and 158 urban counties) meet the definition of entitlement community. The remaining 30% of appropriated funds are allocated by formula to states for distribution to nonentitlement communities.

Table 9. Community Development Block Grants, FY2002-FY2003

(funding in millions)

Programs and set-asides	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 Confer.
Subtotals:					
set-asides (see below for details)	*659.0*	*279.5*	--	--	--
formula-based (entitlement communities	*3,038.7*	*3,100.3*[a]	--	--	--
insular areas	–	*7.0*	--	--	--
formula-based state allocation	*1,302.3*	*1,328.7*	--	--	--
Set-asides:					
Indian Tribes	*70.0*	*72.5*	--	--	--
Econ. Develop. Access Center	*(1.0)*	*(1.5)*	--	--	--
Housing Assistance Council	*3.3*	*3.0*	--	--	--
National American Indian Housing Council	*2.6*	*2.2*	--	--	--
Nat'l Council of La Raza HOPE	*5.0*	*0.0*	--	--	--
technical assistance	*(0.5)*	*0.0*	--	--	--
HOPE Fund; other activities	*(4.5)*	*0.0*	--	--	--
Section 107	*45.3*	*38.9*	--	--	--
technical assistance	--	*(3.0)*	--	--	--
insular areas	*(7.0)*	*0..0*[b]	--	--	--
university programs	*(34.3)*	*(31.9)*	--	--	--
Historically Black Colleges and Universities	*(10.0)*	*(10.0)*	--	--	--
Hispanic Serving Institutions	*(6.5)*	*(5.5)*	--	--	--
Community Dev. Work Study	*(3.0)*	*(3.0)*	--	--	--
Alaskan Native and Native Hawaiian Serving Institutions	*(4.0)*	*(2.4)*	--	--	--
Tribal Colleges and Universities	*(3.0)*	*(3.0)*	--	--	--

Programs and set-asides	**FY2002 enacted**	**FY2003 request**	**FY2003 House**	**FY2003 Senate**	**FY2003 Confer.**
Comm. Outreach Partnership Centers	*(7.9)*	*(8.0)*	--	--	--
management info. systems	*(4.0)*	*(4.0)*	--	--	--
Hawaiian Homelands	*9.6*	*0.0*	--	--	--
Community Technology Center	*0.0*	*0.0*	--	--	--
Improving Access Initiative	*0.0*	*0.0*	--	--	--
Self-Help Housing Opportunity	*22.0*	*65.0*	--	--	--
National Housing Dev. Corp.	*5.0*	*0.0*	--	--	--
operating expenses	*(2.0)*	*0.0*	--	--	--
Capacity Building for Community Development and Affordable Housing	*29.0*[c]	*29.5*[x]	--	--	--
National Com. Dev. Initiative	*(25.0)*[d]	*(25.0)*[d]	--	--	--
Habitat for Humanity	*(4.0)*	*(4.5)*	--	--	--
Resident Opportunities and Self Sufficiency (supportive services)	*55.0*	*0.0*[e]	--	--	--
Neighborhood Initiative Demonstration	*42.0*	*0.0*	--	--	--
Working Capital Fund for the development of info. tech. systems	*13.8*	*3.4*	--	--	--
Youthbuild	*65.0*	*65.0*	--	--	--
Youthbuild in rural and underserved areas	*(10.0)*	*(10.0)*	--	--	--
Youthbuild USA capacity bldg.	*(2.0)*	*(2.0)*	--	--	--
Economic Develop. Initiative:	*294.2*	*0.0*	--	--	--
Total: CDF, CDBG	**5,000.0**	**4,715.5**	**--**	**--**	**--**
CDBG to New York for September 11, 2001 emergency response	*2,000.0*	*0.0*	--	--	--
small businesses, nonprofit organizations, and individuals	*(500.0)*	*0.0*	--	--	--
tourism promotion	*(10.0)*	*0.0*	--	--	--
Transfer of unobligated balances under P.L. 107-38 in response to terrorist attack	*700.0*	*0.0*	--	--	--
Total	**7,700.0**	**4,715.5**	**--**	**--**	**--**

Source: Dept. of Housing and Urban Development.

Note: Totals may not add due to rounding. Italics indicates entries subsumed under CDBG line in **Table 6**; parenthesis indicates entry subsumed in this table under line immediately above.

[a]The Administration's $16 million *Colonias* Gateway Initiative is included in this amount since it would be funded by a formula change for CDBG entitlement communities.
[b]Insular areas would be included in formula portion of the CDBG program and would not be included as a set aside under Section 107 (Special Purpose Grants).

[c]FY2002 appropriations included $5 million for rural and tribal areas. The Administration's FY2003 budget also recommends $5 million for rural and tribal areas.
[d]Includes funding for the Enterprise Foundation and the Local Initiative Support Corporation in support of local community development corporations.
[e]Appropriations for this program would be transferred to Public Housing Capital Fund. The Administration is requesting $55 million.

These and other Community Development initiatives are to be offset by eliminating funding for two community development fund-related set asides, notably, the Neighborhood Initiative, which received $42 million for FY2002, and the Economic Development Initiative, which received $294 million in FY2002. In past years the Economic Development Initiative (EDI) has routinely been used by Members of Congress to earmark funding specific projects. Entitlement communities, states, and previous Administrations have objected to these earmarks on the grounds that they are noncompetitive, and reduce the amount of funds available under the core CDBG program for distribution to entitlement communities and states.

For FY2002, $294 million in EDI assistance was earmarked for more than 300 specific projects identified in the conference report (H.Rept. 107-272) accompanying the VA-HUD-Independent Agencies Appropriations Act for FY2002, P.L. 107-73. The Neighborhood Initiative supports projects intended to stimulate economic diversification and investment in areas experiencing population out-migration, improve conditions in blighted and distressed neighborhoods, or facilitate the integration of housing assistance with welfare reform initiatives. For FY2002, Congress appropriated $42 million for the program with all of the funds earmarked for specific projects identified in the conference report. Congress also provided $2.7 billion in CDBG assistance to New York City to assist in post-September 11, 2001 recovery efforts.

Brownfields Redevelopment. The Administration requests $25 million for brownfields redevelopment projects for FY2003, the same amount appropriated in both FY2001 and FY2002. Brownfields redevelopment funds are used to reclaim abandoned and contaminated commercial and industrial sites. Administration estimates place the number of eligible brownfield sites at 450,000 nationwide. Funds are used to finance job creation activities that benefit low and moderate income persons, and the Administration estimates that the $25 million requested could support the cleanup of 25 brownfield sites and create approximately 5,400 jobs. Funds have been used in conjunction with Section 108 loan guarantees and with EPA brownfields cleanup efforts, but HUD will propose decoupling the brownfields program from the Section 108 loan guarantee program, believing this will attract more participants.

The HOME Investment Partnership Program. The Administration is requesting $2.084 billion for FY2003, $238 million more than the $1.846 billion enacted in FY2002. The HOME block grant program makes funds available to participating jurisdictions to increase the supply of affordable rental housing and homeownership opportunities for low-income families. Jurisdictions have considerable flexibility in the use of these funds but all households assisted must have incomes below 80% of the area median and 90% of renters receiving assistance must have incomes below 60% of median. Funds can be used to help new homebuyers. Both homebuyers and renters can be helped through the rehabilitation of substandard housing and new construction. Funds may also be used for tenant-based rental vouchers. Some HOME funds are used with the HOPE VI program and with the Low-Income Housing Tax Credit. According to HUD budget documents, since its beginning in 1992, HOME funds have been used to construct or rehabilitate more than 250,000 rental units, and have provided direct rental assistance (vouchers) to more than 73,000 households.

There would be $200 million set-aside for a "Downpayment Assistance Initiative" to assist first-time low-income homebuyers, up from the $50 million enacted for FY2002. Funds would be provided on a competitive basis and would be administered by state housing finance agencies, and be expected to assist over 130,000 first-time buyers each year. Funds would be matched on a 3 to 1 basis up to $1,500 per family. HUD made the same $200 million request last year, and some organizations, including those representing the National Association of Counties and the U.S. Conference of Mayors, testified before the House Subcommittee on Housing and Community Opportunity last year (May 22, 2001), in opposition to the $200 million set-aside, arguing that HOME funds may already be used for downpayment and/or closing cost assistance. Further, they oppose it because "it chooses one delivery system – state housing finance agencies – for no proven programmatic purpose." They argued that some communities already have a high homeownership rate and that affordable rental housing is the critical need.

Last year's Senate bill did not include any funding for this downpayment assistance fund (the House recommended the full $200 million). H.Rept. 107-43 notes that "downpayment assistance is already permissible under the HOME program and therefore does not require new or additional authorization." The conferees provided $50 million, subject to authorization legislation by June 30, 2002. Otherwise, the $50 million will be available for any authorized purpose. Since the Administration is seeking a $238 million increase in the HOME program, there could be less objection to the full $200 million set-aside request.

Homeless Assistance Grants. President Bush's FY2003 budget requests $1.130 billion for homeless assistance, an increase of $7 million from the FY2002 appropriation of $1.123 billion. From the FY2003 request of $1.130 billion, $1.109 billion would fund Homeless Assistance Grants, $1.5 million would be for the Working Capital Fund for homeless assistance projects, $11 million for homeless management systems, $6.6 million for technical assistance and $1 million for the Interagency Council on the Homeless. For FY2003, the Administration has proposed that the Emergency Food and Shelter program (EFSP), which is currently administered by the Federal Emergency Management Agency (FEMA), be transferred to HUD. In addition, HUD's FY2003 budget request is based on a legislative proposal to consolidate the three competitive homeless assistance programs under the Homeless Assistance Grants programs, i.e., Supportive Housing, Shelter Plus Care and Single Room Occupancy. The fourth HUD program, Emergency Shelter Care, is a formula program. The proposed consolidation is intended to provide more consistent funding and eliminate the burden of administering the current competitive programs. The Senate Subcommittee on Housing and Transportation held a hearing on the "Reauthorization of the HUD McKinney-Vento Homeless Assistance Act Programs," on March 6, 2002.

The homeless assistance programs are intended to help homeless persons and families break the cycle of homelessness and to move to permanent housing and self-sufficiency. The Continuum of Care (CoC) process encourages the creation of linkages to other housing and community development programs including public housing, Section 8, Community Development Block Grants, HOME, Housing Opportunities for Persons with AIDS and state and local programs. In addition, the strategy promotes direct links to mainstream social service programs critical to the success of homeless assistance efforts, such as Medicaid, State Children's Health Insurance Program, Food Stamps, Temporary Assistance for Needy Families (TANF) and services funded through the Mental Health and Substance Abuse Block Grant, Workforce Investment Act, and the Welfare-to-Work grant program.

The FY2003 HUD justification included preliminary measurable performance indicators which concentrate on the number of homeless persons who have attained permanent housing. One of HUD's strategic objectives is to end chronic homelessness (20% of the homeless) in 10 years; one of the indicators of progress to this goal is that at least 25,000 formerly homeless persons move into HUD McKinney-Vento funded permanent housing through FY2003. Another strategic objective is to help homeless individuals and families move to permanent housing. Some of the indicators of successfully moving toward that goal is that through FY2003, at least 29,000 homeless persons move from HUD transitional housing to permanent housing; that at least 115,000 homeless people move into HUD-funded transitional housing and that at least 19,000 homeless persons become employed while in HUD's homeless assistance project. Another indicator of moving toward that goal is that the number of communities with Homeless Management Information Systems increase from 12 in FY2001, to 25 in FY2002, to 75 in FY2003; HUD has been charged by Congress to assist communities in developing unduplicated counts of homeless persons and generating client-level data nationally by 2004.

For more information on federal programs for the homeless, see CRS Report RL30442, *Homelessness: Recent Statistics, Targeted Federal Programs and Recent Legislation*, by M. Ann Wolfe.

Housing for the Elderly and Disabled. These programs provide capital grants to eligible entities for the acquisition, rehabilitation, or construction of housing. The President is proposing $783 million for housing assistance for the elderly in FY2003, the same as for the previous year. HUD points out that an increasing number of the elderly living in these apartments have become frailer and less able to live in rental facilities without some additional services. Of the $783 million, $30 million would be made available for grants for construction to convert existing units to assisted living facilities. This will allow individual elderly residents to remain in their units and maintain their independence. Another $53 million would be targeted to service coordinators who help the elderly obtain needed and eligible services from the community.

The Administration has also requested $251 million for housing for the disabled (Section 811), a $10 million increase over the $241 million provided in FY2002. Like last year, up to 25% of the funds for the disabled could be used for vouchers to give disabled individuals more flexibility and choice so they could live in mainstream rental housing. However, these vouchers must then be renewed each year, and in

FY2003, $32 million of the $251 million total would be to renew vouchers. In addition, of the $204 million proposed for 33,400 additional vouchers, mentioned earlier under the Housing Certificate Fund, $40 million would be allocated for approximately 6,000 vouchers for non-elderly disabled individuals who are currently living in public housing units that are now being converted to "elderly only" projects.

Federal Housing Administration (FHA). For FY2003, the Administration is requesting an insurance commitment limitation of $160 billion for the FHA Mutual Mortgage Insurance and Cooperative Housing Mortgage Insurance (MMI/CHMI) fund, the same level as appropriated for FY2002. A $21 billion insurance commitment limitation is requested for the General Insurance and Special Risk Insurance (GI/SRI) fund, the same level as approved for FY2002.

Since FY2002, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) have determined that FHA receipts under the MMI account should be classified within the discretionary rather than the mandatory part of HUD's budget. According to CBO, the reclassification has no effect on the amount of budgetary resources available to HUD, and the MMI program will continue operating as it did prior to the reclassification. Mandatory spending must comply with the pay-as-you-go rules of the Budget Enforcement Act (BEA) while discretionary spending must comply with the BEA's discretionary spending caps. Spending for the MMI program will be determined by the annual appropriations acts.

The Budget requests a loan limitation of $50 million for direct loans under the MMI/CHHI fund, a $200 million reduction from the FY2002 level. A direct loan limitation of $50 million is proposed for the GI/SRI fund, the same limit as in FY2002. The direct loans are used to facilitate the sale to municipalities and nonprofit corporations of single family and multifamily properties that have been acquired by the FHA insurance funds through defaults and foreclosures by borrowers. The Budget states that the $250 million limitation in FY2002 was in anticipation of increased demand for disposition of single family properties and the demand did not materialize because of the availability of alternative financing.

The Budget requests $776 million for administrative expenses of the FHA program accounts, of which $363 million would be funded in the MMI/CHMI accounts and $233 million in the GI/SRI accounts.

As in FY2002, the FY2003 Budget requests an appropriation of $15 million for credit subsidies to support loan guarantees under the GI/SRI programs. The credit subsidy is based on the net cost to the government, exclusive of administrative expenses, of a direct loan or loan guarantee over its full term, discounted to the present value at the Treasury's borrowing cost. FHA proposes to reduce the annual mortgage insurance premium from 80 basis points to 57 basis points on new construction loans insured under the Section 221(d)(4) program. That program is the largest multifamily program insured in the GI/SRI fund. Interestingly, the insurance premiums were raised from 50 to 80 basis points in FY2002, and that was used as partial justification for the need of only $15 million in credit subsidies instead of $101 million that had been appropriated in the prior year.

The Budget notes, however, prior estimates were based on historic performance over the past 40 years, including tax law changes in the 1980s that adversely effected the performance of loans in the portfolio at the time. The Budget argues that the new credit subsidy estimates are based on econometric models that incorporate the improvements in recent years in underwriting, program monitoring, and asset management.

Section 601 of P.L. 105-276, the FY1999 HUD Appropriations Act, amended Section 204 of the National Housing Act to give HUD more flexibility in choosing the most cost-effective way of paying insurance claims and disposing of acquired notes or homes under the FHA single family programs. The amendment provides a new claims payment procedure that permits HUD to pay a claim upon assignment of the mortgage rather than upon conveyance of the property; authorizes HUD to take assignment of the notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management, and asset disposition; allows FHA to be an equity participant in private entities; and allows a structured financing for asset disposition in which FHA retains an equity interest, thereby increasing the value of the asset over simple asset sales.

In FY2003, HUD is proposing to use its Section 601 authority to transfer defaulted notes to joint venture partners in the private sector. The partners would make upfront payments to FHA at the time of transfer, FHA would retain an equity interest in the notes until their disposition, and FHA would receive additional payments for that interest. The proposal is expected to reduce foreclosures, eliminate much of the acquisition of property by FHA, and increase net recoveries to FHA. This is regarded as a big step towards getting FHA out of the property management business altogether.

The Budget reiterates HUD's commitment to eliminating predatory lending and comprehensively reforming and simplifying the home-buying process. While providing few details, HUD states that new regulations under the Real Estate Settlement Procedures Act will require full disclosure of all fees that borrowers will pay at settlement, and make it clear to borrowers that other finance options are available. A proposed rule was published in 2001which would prevent the issuance of FHA insurance on properties that have been transferred by a previous sale within 6 months. The Budget notes that the rule will be implemented in 2003. FHA also proposes to publish a rule in 2003 which would restrict excessive points and fees on FHA-insured loans. A rule will be proposed in 2002 and, if implemented, would hold lenders accountable for the selection and performance of appraisers for FHA-insured mortgages.

HUD has oversight responsibilities for establishing affordable housing goals for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and for monitoring their progress toward achieving those goals. The Budget commits HUD to expanding and aggressively pursuing its mission-related regulatory obligations regarding Fannie Mae and Freddie Mac.

Government National Mortgage Association (Ginnie Mae). For FY2003 the Budget proposes a limit of $200 billion on new commitments for mortgage-backed securities by Ginnie Mae, which is the same limit as in FY2002. An appropriation of $10.8 million is proposed to fund salaries and expenses.

Office of Federal Housing Enterprise Oversight (OFHEO). OFHEO is the safety and soundness regulator for Fannie Mae and Freddie Mac. The FY2003 Budget proposes $30.8 million in budget authority compared to $27 million in FY2002. That cost is assessed from Fannie Mae and Freddie Mac. Legislation would be proposed to remove OFHEO from the annual appropriations process, and fund the organization directly. That would place OFHEO on a par with other safety and soundness regulators such as the Federal Reserve Board, the Office of Thrift Supervision, and the Federal Housing Finance Board.

Fair Housing. The Fair Housing Act makes it illegal to discriminate in the sale, rental, or financing of housing based on race, color, religion, sex, national origin, disability, or family status. HUD's FY2002 budget promises vigorous enforcement of fair housing laws and increased educational activities to combat discrimination in housing. For FY2003, HUD requests $46 million, level with FY2002 appropriations.

Two programs comprise HUD's fair housing efforts: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP). FHAP strengthens nationwide enforcement efforts by providing grants to state and local agencies to enforce laws that are substantially equivalent to the federal Fair Housing Act. For FY2003, HUD is requesting $25.7 million for FHAP. FHIP provides funds for public and private fair housing groups, as well as state and local agencies, for activities that educate the public and housing industry about the fair housing laws, including accessibility requirements; investigate allegations of discrimination; help to combat predatory lending practices, and reduce barriers to minority homeownership. FHIP would be funded at $20.3 million in FY2003.

In its FY2002 budget for Fair Housing, HUD pledged to continue its efforts to combat predatory lending by working closely with interested parties, including consumer groups, federal, state and local regulators, and the industry to put an end to predatory lending. As part of this effort, it supports programs to increase financial literacy. Its proposed budget for FY2003 promised to continue these efforts.

Lead-Based Paint Hazard Reduction. Title X of the Housing and Community Development Act of 1992 (P.L. 102-550), authorized HUD to establish the Lead-Based Paint Hazard Control Grant program. Before 1997, funding for the lead hazard control grant program was provided under the Annual Contributions for Assisted Housing Account. In 1997 and 1998, the program was funded as a set-aside under the Community Development Block Grant account. Starting in 1999, the program was funded as a separate, stand-alone program.

Over the past decade, HUD has worked with local governments and agencies to increase the number of lead hazard control programs, and measurable lead levels in children have declined. However, millions of housing units occupied by lower income households remain contaminated with lead-based paint. To further reduce lead paint health hazards, the FY2003 HUD budget requests a $16 million increase over FY2002, bringing the total to $126 million. Funds are distributed through competitive grants to entities that agree to match those federal grants. The $126 million supports a 10-year strategy to eliminate lead paint hazards, with funds targeted to the 1.8 million homes that are at risk of not being modified through normal renovation or demolition activities.

Title III: Independent Agencies

Environmental Protection Agency

The President's FY2003 request for the Environmental Protection Agency (EPA) is $7.621 billion in budget authority or 6% less than the $8.079 billion appropriated for FY2002.

Accounting for the proposed decrease is the Administration's decision not to seek continued funding for about $500 million earmarked for numerous activities in the FY2002 conference report. This includes some $300 million for specific wastewater grants, numerous research grants, and other special grants. Other prime issues include the adequacy of funds to capitalize wastewater needs; funding of state programs including the shifting of enforcement responsibility to the states; and future funding of the Superfund program.

State and Tribal Assistance Grants. How to meet the Nation's water infrastructure capital needs remains a primary appropriations issue for EPA. The Administration's proposed FY2003 level of $3.464 billion for the State and Tribal Assistance Grants account (STAG) is $269 million, or 7% less than the $3.733 billion allocated in FY2002. The major reason for the proposed decrease is the Administration's decision not to seek continued funding for over $300 million designated for specific water grants in FY2002.

Within the STAG account, the budget proposes $1.2 billion for wastewater funding, $150 million less than the $1.35 billion for FY2002. Another major account activity, drinking water state revolving funds, is projected to receive $850 million, the same as funding for FY2002.

Table 10. Environmental Protection Agency Appropriations, FY1998-FY2002

(budget authority in billions)

FY1998	FY1999	FY2000	FY2001	FY2002
$7.4	$7.6	$7.4	$7.8	$8.08

Source: Figures for FY1998-FY2001 are from administration budget submissions of subsequent years; figures for FY2002 are from the House Committee on Appropriations, and are the latest available estimates for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

For state and tribal administrative grants, the budget seeks $1.2 billion, $84 million more than current funding; most state administrative grants would remain the same as in the current year. One new grant program would provide $15 million in grants to assist states in enforcing environmental laws and regulations. This represents a shift in policy, moving more enforcement to the states, and is accompanied by a related $15 million decrease in EPA's own enforcement efforts. A similar proposal in the FY2002 proposal was not agreed to by the appropriators. Also part of the proposal is $170 million in Brownfields Grants for contaminated sites with development potential. And, the proposal seeks $20 million for Targeted Watersheds Project grants to implement restoration in priority watersheds.

Superfund. The future of the Superfund, and its purpose of cleaning up toxic waste sites remains an issue. The FY2003 budget request of $1.149 billion is a proposed $72 million decrease compared to FY2002. There is concern over the ability of the declining trust fund, which is financed by chemical fees and other taxes, to finance the program beyond FY2003. The available balance of the fund has been declining since its taxing authority expired on December 31, 1995. The President's FY2003 budget does not propose renewing the taxes that support Superfund, and its balance at the beginning of FY2003 was projected to be $427 million, a level sufficient to accommodate the fund's share of the projected spending authority of $1.2 billion needed for FY2002, 46% of which would come from the fund and 54% from general appropriations.

Table 11. Appropriations: Environmental Protection Agency, FY2002-FY2003

(budget authority in billions)

Program	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 Conf.
Science and Technology (incl. transfers from Superfund)	.735	.781	--	--	--
Emergency supplemental	.090	---	--	--	--
Environmental programs, compliance (management)	2.055	2.048	--	--	--
Emergency supplemental	.039	---	--	--	--
Office of Inspector General	.046	.048	--	--	--
Buildings and facilities	.025	.043	--	--	--
Superfund (net, after transfers)	1.221	1.149	--	--	--
Emergency supplemental	.041	--	--	--	--
Leaking Underground Storage Tank Trust Fund	.073	.072	--	--	--
Oil spill response	.015	.016	--	--	--
State and tribal assistance	3.733	3.464	--	--	--
Emergency supplemental	.005	---	--	--	--
Subtotal (EPA)	**8.079**	**7.621**	**--**	**--**	**--**

Source: House Committee on Appropriations

Note: Rounding may cause discrepancies in subtotals.

Historically, the share paid by the trust fund has been declining. In the past, the trust fund paid for the majority of Superfund activities; in the current year, the fund supports 50% of the program costs, in future years, general appropriations may have to pay the majority of costs. Some have criticized this fundamental change in policy, which lessens the responsibility of polluters, under the principle that the "polluter pays," and instead socializes pollution costs across the economy, by funding them as costs to the general Treasury.

For more detailed information on the Superfund, see: CRS Issue Brief IB10078, *Superfund and the Brownfields Issue in the 107th Congress*. For information on wastewater treatment issues, see CRS Report 98-323, *Wastewater Treatment: Overview and Background*. For an in-depth discussion of the EPA budget proposal, see CRS Issue Brief IB10101, *The Environmental Protection Agency's FY2003 Budget*.

Federal Emergency Management Agency

The Federal Emergency Management Agency (FEMA) helps states and localities prepare for and cope with catastrophic disasters. FEMA administers policies related to emergency management, including: disaster relief, fire prevention, earthquake hazard reduction, emergency broadcasting services, flood insurance, mitigation programs, and dam safety. The Bush Administration and Congress have emphasized FEMA's role in preparing for and responding to terrorist attacks since September 11.

At least 28 statutes and executive directives set forth the responsibilities of FEMA. (These authorities are summarized in CRS Report RL31285, *FEMA's Mission: Policy Directives for the Federal Emergency Management Agency*.) The Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 *et seq.)* authorizes the President to declare major disasters or emergencies (the latter provide considerably less federal assistance than the former), sets out eligibility criteria for federal aid, and specifies the types of assistance that may be provided by FEMA and other federal agencies. Disaster assistance funding varies from year-to-year by the severity and frequency of declared catastrophes. In recent years, billions have been appropriated to help communities recover from tornados, hurricanes, floods, earthquakes, and other incidents. For detailed information see CRS Report RL31359, *Federal Emergency Management Agency Funding for Homeland Security and Other Activities*.

The FEMA budget requests for each year include funds for normal agency operations and grant-in-aid assistance to nonfederal entities, in addition to emergency disaster relief. Should funds appropriated in annual legislation for disaster relief prove insufficient, supplemental funds are requested. For FY2002, the Administration requested $1.4 billion for the Disaster Relief Fund account for FY2002. For the entire agency, the House approved $3.557 billion, the Senate approved $3.278 billion. The primary difference between the two versions is in disaster relief. The House provided $1.369 billion in direct appropriations to the disaster relief fund, while the Senate approved $359 million. In contrast, the House provided $1.3 billion in emergency funding for disaster programs, and the Senate approved $2 billion. The Senate also approved $430 million in emergency management planning assistance, $25 million more than provided under the House bill.

Table 12. Appropriations: Federal Emergency Management Agency, FY2002-FY2003

(budget authority in billions)

Program	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 Conf.
Disaster Relief Fund	.664	1.843	--	--	--
Contingent emergency funds	1.500	.000	--	--	--
Emergency supplemental	4.357	.000	--	--	--
Nat'l pre-disaster mitigation	.000	.300	--	--	--
Disaster assist. loan; admin.	.001	.001	--	--	--
Radiological emergency prep.	-.001	-.001	--	--	--
Salaries and expenses	.234	.240	--	--	--
Emergency supplemental	.025	.000	--	--	--
Inspector General	.010	.011	--	--	--
Emergency management, planning assistance	.405	3.747	--	--	--
Emergency supplemental	.220	.000	--	--	--
Emergency food, shelter	.140	.153	--	--	--
Flood map modernization	.000	.300	--	--	--
Nat'l Flood Insurance Fund[a]	.105	.110	--	--	--
Subtotal (FEMA)	**7.660**	**6.704**	**--**	**--**	**--**

Source: House Committee on Appropriations

Note: Rounding may cause discrepancies in subtotals.

[a] National Flood Insurance Fund data includes salaries and expenses and flood mitigation funding.

To reduce future losses from disasters, in recent years FEMA has sought increased funding for mitigation activities. Legislation to establish a new hazard mitigation program was approved by the 106th Congress (P.L. 106-390). For information on the legislation, see: CRS Report RS20736, *Disaster Mitigation Act* *of 2000 (P.L. 106-390): Summary of New and Amended Provisions of the Stafford Disaster Relief Act.*

National Aeronautics and Space Administration

The National Aeronautics and Space Administration (NASA) receives appropriations within two accounts: Human Space Flight (HSF); and Science, Aeronautics and Technology (SAT). Funding for the Office of Inspector General is identified separately. In the FY2003 budget, the HSF account includes funding for the International Space Station; Space Shuttle; Payload and Expendable Launch Vehicle Support; Investments and Support; Space Communications and Data Systems; and Safety, Mission Assurance, and Engineering. The SAT account contains the bulk of NASA's research and development activities, including Space Science; Biological and Physical Research; Earth Sciences; Aero-Space Technologies; and Academic Programs.

NASA is requesting $15.000 billion for FY2003, compared to $14.902 billion appropriated in FY2002 ($14.793 billion in the FY2002 VA-HUD-IA Appropriations Act, and $108.5 million in the FY2002 DOD and Supplemental Appropriations Act), an increase of 0.66%. According to OMB, the NASA request for FY2003 is $15.117 billion, because OMB includes $117 million in federal retiree costs in the request (see explanation below).

NASA's budget structure is changing, complicating efforts to track funding for specific programs or enterprises. First, NASA is moving to full cost accounting where costs for personnel and construction of facilities eventually will be included in individual program costs, instead of grouped together at a broader level. The accounting changes began in the FY2002 budget and are continued in FY2003.

Second, NASA shifted some of the funding for "Space Operations" from HSF to SAT. (Space Operations involve activities related to tracking and communicating with spacecraft in Earth orbit and beyond, and with aeronautics and aerospace vehicles within Earth's atmosphere. It also includes the telecommunications networks used by the agency for its internal operations.) Thus, some of the apparent decline in the HSF budget, and the increase in the SAT budget, is attributable to these transfers rather than a reduction or increase in programs. Also, beginning in FY2002, NASA shifted funds for space station research out of HSF and into SAT, specifically the Office of Biological and Physical Research (OBPR). Total space station program funding now is the sum of the funds in the International Space Station (ISS) line plus the "ISS research" portion of OBPR.

Third, the President has proposed legislation under which federal departments and agencies, beginning with the FY2003 budget, would pay the government share of federal retiree (pensions and health insurance) costs for their employees on an accrual basis, thereby increasing current year costs. Although the legislation has not yet passed, NASA's FY2003 budget is presented with $117 million in federal retiree costs included. Thus, when discussing NASA's FY2003 request, some refer to $15.000 billion, while others use $15.117 billion. The difference is whether the retiree costs are included. This report uses the $15.000 billion figure, following the practice of the Appropriations Committees.

More details on NASA's FY2003 request are available in CRS Report RL31347. Information on NASA's FY2002 budget is contained in CRS Report RL31037.

Table 13. National Aeronautics and Space Administration Appropriations, FY1998-FY2002

(budget authority in billions)

FY1998	FY1999	FY2000	FY2001	FY2002
$13.65	$13.67	$13.60	$14.29	$14.90

Source: Figures for FY1998-FY2001 are from administration budget submissions of subsequent years; figures for FY2002 are from the House Committee on Appropriations, and are the latest available estimates for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

International Space Station (ISS). For FY2003, NASA is requesting $1.839 billion for the ISS program: $1.492 billion in the HSF account; and $347 million in the Office of Biological and Physical Research (OBPR) budget, part of the SAT account. The HSF funding is for building the space station. The OBPR funding is for the scientific facilities to enable research to be conducted aboard it (often called the "space station research" or "space station science" budget). For FY2002, NASA received $2.093 billion in total for the ISS program. The FY2003 request is $254 million less than the comparable figure for FY2002, reflecting the fact much of the hardware has been built and the Bush Administration has decided to truncate construction at a stage it calls "core complete." The FY2003 request is slightly higher than the $1.818 billion NASA projected that it would need for FY2003.

The space station is under construction in orbit and the facility has been permanently occupied by successive crews on 4-6 month shifts since November 2000. Much remains to be built, however, and in early 2001, NASA revealed significant cost growth for completing the station. The new estimate would exceed a congressionally imposed cap of $25 billion. In response, the Bush Administration directed NASA to stop construction at core complete in FY2004. At that point, the U.S. hardware now awaiting launch will be in orbit, plus laboratory modules being built by Japan and Europe at their own expense.

NASA cancelled its plans to build a Propulsion Module, and indefinitely deferred two other ISS segments: the Habitation Module, and the Crew Return Vehicle (CRV). Without the CRV, ISS crew size may be limited to three astronauts, which could severely restrict the amount of scientific research conducted there. NASA hopes to have a new, independently verified cost estimate for completing the "core complete" configuration by August 2002. Subsequently, the Bush Administration will make recommendations on what, if any, "enhancements" to make, such as adding back capabilities for a larger crew. The partners point out that the term "core complete" does not appear in the international agreements that govern the station.

Europe, Japan, Canada, and Russia are all partners with the United States in building the space station, and all have expressed deep concern with the revised U.S. plan. The Intergovernmental Agreement (IGA) is a treaty involving all the countries who are partners in the ISS program except the United States (where it is an Executive Agreement). The international partners want the Bush Administration to commit to building the space station as agreed in the IGA and associated Memoranda of Understanding (MOUs), but the Administration is not willing to make that commitment. See CRS Issue Brief IB93017 for more on the space station program.

Table 14. Appropriations: National Aeronautics and Space Administration, FY2002-FY2003

(budget authority in billions)

Program	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 Conf.
Human space flight	6.912	6.131	--	--	--
Emergency supplemental	.076	.000	--	--	--
Science, aeronaut., tech.	7.857	8.845	--	--	--
Emergency supplemental	.033	.000	--	--	--
Inspector General	.024	.025	--	--	--
Subtotal (NASA)	**14.902**	**15.000**	**--**	**--**	**--**

Source: House Committee on Appropriations.

Note: Rounding may cause discrepancies in subtotals.

Space Shuttle. For FY2003, NASA is requesting $3.208 billion for the shuttle program, slightly less than the $3.273 billion it received in FY2002. NASA insists that shuttle safety is a top NASA priority, but the aging of the shuttle systems, and concern about the skill mix of the shuttle workforce as the shuttle program transitions to a "single prime contractor," makes safety an ongoing issue. In testimony to the House Science Committee on April 18, 2002, Richard Blomberg, who recently completed his term as chairman of an independent panel that oversees human space flight safety at NASA, said that in all his years of involvement, "I have never been as concerned for Space Shuttle safety as I am right now."

Decisions on how much to spend on safety and supportability upgrades for the shuttle are partially dependent on the length of time the shuttle is required to be in service. NASA is developing technologies for a vehicle to replace the shuttle (see Aero-Space Technology below). NASA's current plans are to operate the shuttle until 2012, but the agency is assessing what further upgrades would be required if the shuttle is needed through 2020 should the new program not proceed as planned.

In its FY2003 budget, NASA is proposing a 43% reduction for the period FY2002-2006 in funding for shuttle upgrades. In response to questions at a House Science Committee hearing on February 27, 2002, NASA Administrator O'Keefe assured the committee that the funding level proposed in the FY2003 budget will not compromise shuttle safety. For more on the shuttle program, see CRS Issue Brief IB93062.

Space Science. For FY2003, NASA is requesting $3.414 billion for Space Science, compared with $2.867 billion in FY2002. Of the $547.2 million increase, $165.5 million is a transfer from the Human Exploration and Development of Space (HEDS) account for the Deep Space Network (DSN), and another $73.9 million is to cover a shortfall in the DSN line item. Thus, $239.4 million of OSS's FY2003 budget request is due to the transfer of DSN, not new program initiatives. Funding for OSS programs would increase overall by $308 million, reflecting funding increases in some areas, but decreases in others. The budget proposes $124 million for a new Nuclear Systems Initiative to develop nuclear power units for spacecraft and perform research on nuclear propulsion, $704 million for advanced technology development (an increase of $264 million over FY2002), and $15 million to create a "New Frontiers" program.

However, the budget request also proposes eliminating two planned planetary exploration missions: one to Europa, a moon of Jupiter; and the other to Pluto and the Kuiper Belt beyond (thought to be the source of comets). During NASA briefings on its budget in February 2002, NASA officials explained that the missions were canceled because they are too costly. Congress capped funding for the Europa mission at $1 billion in the FY2002 VA-HUD-IA Appropriations Act. The Pluto/Kuiper Belt (PKB) mission is estimated to cost $488 million (not including inflation). NASA proposed eliminating the Pluto mission in FY2002, but Congress added $30 million for FY2002 to continue preparatory work. No funding was included for future years, however, and none is requested by the Administration.

Advocates of the Pluto mission are anxious to launch the spacecraft by 2006 to ensure that it reaches Pluto before that planet's atmosphere collapses as Pluto moves further from the Sun. The 2006 launch date is required because the probe, using today's propulsion technology, needs a "gravity assist" from Jupiter in order to reach Pluto in 2016. NASA Administrator O'Keefe argues that funding should be spent instead on research into nuclear propulsion to enable planetary spacecraft to reach their destinations more quickly, without gravity assists from other planets (permitting greater flexibility in when such mission can be launched), and to remain at their destination for longer periods of time.

The FY2003 budget would replace the Europa and PKB missions with the "New Frontiers" program in which planetary mission proposals would compete for funding. NASA estimates that a new planetary exploration mission would be initiated every 3 years, with each mission's funding capped at $650 million. The National Academy of Sciences is expected to release a study of planetary exploration priorities in 2002 that NASA could use to help choose among candidate missions.

Biological and Physical Research. For FY2003, NASA is requesting $842.4 million for the Office of Biological and Physical Research (OBPR), compared with $820 million in FY2002. As noted, funding responsibility for scientific research aboard the International Space Station (ISS) shifted from HEDS to this office in FY2002. OBPR's FY2003 request includes $347 million for ISS research. It also funds two new initiatives: the Space Radiation Initiative ($10.1 million) to better understand radiation effects on astronauts in space; and the Generations Initiative ($11.2 million), to learn how organisms evolve in space.

In FY2002, NASA cut space station research funding by $1 billion over the FY2002-2006 time period to compensate partially for the cost growth in the ISS program (discussed earlier). Also the expected reduction in crew size from seven to three will affect how much research can be conducted. Consequently, OBPR has named a special task force to reprioritize the space station research strategy. A report is anticipated in mid-2002. Because of the relatively limited resources, NASA may have to make difficult choices about which research areas to emphasize.

Earth Science. For FY2003 NASA is requesting $1.629 billion for the Office of Earth Science (OES), virtually identical to its FY2002 funding level of $1.626 billion. For FY2003, $42.4 million was transferred from the HSF account to OES for the Ground Network, and another $37.6 million is needed to cover a shortfall because of that transfer, a total of $80.6 million of OES's FY2003 budget request is proposed for the transfer of the Ground Network.

Some may view the FY2003 funding level as a decrease compared to FY2002 in terms of program content. OES is continuing to launch its first series of Earth Observing System (EOS) satellites and Earth Probes. OES developed a plan for the "EOS Follow-On" program through 2010 that was endorsed by the Space Studies Board of the National Academy of Sciences. However, in 2001, the Bush Administration announced a new Climate Change Research Initiative (CCRI). The Department of Commerce is responsible for scoping the CCRI and determining how it will interact with the existing U.S. Global Change Research Program. Those decisions ultimately will lead to choices about what satellites NASA should launch to support CCRI's goals.

Thus, plans for the EOS program are uncertain. NASA is moving forward, however, with development of the Ocean Topography Mission, the NPOESS Preparatory Project (NPP), and the Landsat Data Continuity Mission (LDCM). LDCM is intended to continue producing data similar to that from the Landsat series of satellites that have been launched since 1972 (two are still operating). The Bush Administration directed NASA to purchase Landsat-type data from the private sector rather than build its own satellite. Two companies were selected by NASA in March 2002 to develop proposals to accomplish that goal.

Aero-Space Technology. For FY2003, NASA is requesting $2.816 billion for Aero-Space Technology, compared with $2.508 billion in FY2002. The Office of Aero-Space Technology (OAST) supports NASA's aeronautical research and development (R&D) program, the advanced space transportation technology program, information technology, and technology transfer.

The total requested funding for aeronautics R&D is $541.4 million, a decrease of 10% from the FY2002 appropriation. In February 2002, NASA presented its technology vision for aviation in the report *The NASA Aeronautics Blueprint* [www.aerospace.nasa.gov/aero_blueprint/]. The report identifies a variety of challenges that could be addressed by advances in aeronautics technology, but it does not address funding for R&D. Although FY2002 saw a 5% increase compared with FY2001, funding for aeronautics R&D is still down considerably from its FY1998 peak of $920 million, and the proposed further reduction may be contentious.

Among the more controversial issues are funding for the rotorcraft program and the Small Aircraft Transportation System (SATS). The FY2003 budget request provides no funding for the rotorcraft program, which was funded at congressional direction in FY2002 ($12.5 million). SATS would increase by 29% to $20 million. A review of SATS by the National Academy of Sciences was completed in March 2002, after release of the President's budget. The report endorsed NASA R&D on small aircraft and small airports, but it was skeptical about NASA's long-range vision for the SATS concept in particular.

A primary focus of NASA's advanced space transportation effort is the Space Launch Initiative (SLI) to develop technologies for a new Reusable Launch Vehicle (RLV) to replace the space shuttle. SLI replaces the unsuccessful X-33 program. The FY2003 request for SLI is $759 million, compared with $467 million in FY2002. Total funding for the program (FY2001-2006) is expected to be $4.8 billion.

SLI is intended to reduce the technical risk involved in building a 2nd generation RLV (the shuttle is the 1st generation RLV), and provide the necessary technical and cost information to enable a decision in 2006 as to what RLV to build. The SLI program itself does not involve development of the launch vehicle, only of the technologies that will permit a design choice to be made. NASA is focusing on technologies that would meet NASA requirements, but also is trying to "converge" its requirements with those of the commercial space launch services market and the Department of Defense to determine if a single vehicle could meet all requirements.

Although the original intent was for the private sector to fund development of, own, and operate the new RLV, NASA concedes that current market conditions make it unlikely that the private sector will fund development. NASA still hopes the new vehicle will be owned and operated by the private sector. Informal cost estimates for development are in the $10 billion range (in addition to the $5 billion being spent on SLI), though actual cost estimates will not be available until the SLI program is completed. NASA intends that the new vehicle will be operational by 2012, meaning that a substantial commitment of government funding would be required for the FY2007-FY2012 time period. Some observers are skeptical that a new vehicle can be developed in such a short time period, an important consideration in terms of deciding how long the shuttle will be needed and therefore how much to spend on shuttle upgrades (discussed earlier).

For more on the SLI program, see CRS Issue Brief IB93062, *Space Launch Vehicles: Government Activities, Commercial Competition, and Satellite Exports*, by Marcia Smith.

National Science Foundation

The FY2003 request for the National Science Foundation (NSF) is $5.029 billion, a 5% increase ($240 million) over the FY2002 estimate of $4.789 billion. The FY2003 request provides support for several interdependent priority areas: biocomplexity in the environment ($79 million, 36% above FY2002), information technology research ($286 million, 3% above FY2002), learning for the 21st century ($185 million, 27.5% above FY2002), nanoscale science and engineering ($221 million, 11% above FY2002), mathematical sciences ($60 million, 100% increase above FY2002), and social, behavioral and economic sciences ($10 million, new in the FY2003 request).

The request provides a second installment of $200 million for the President's Math and Science Partnerships program (MSP). Additional FY2003 highlights include increased funding for graduate students ($26 million), continued support of plant genome research ($75 million), increased investment in NSF's administration and management portfolio ($268 million), and funding for the Partnerships for Innovation program ($5 million). As part of the Administration's new multi-agency Climate Change Research Initiative, the NSF will provide $15 million for research to advance understanding in the highly focused areas of climate science and to facilitate policy-decision making in climate research.

In FY2003, the Administration proposes the transfer of three programs from other agencies to the NSF. The proposed transfers include the National Sea Grant program, currently at the National Oceanic and Atmospheric Administration ($57 million), Environmental Education, currently at the Environmental Protection Agency ($9 million), and Hydrology of Toxic Substances, currently at the United States Geological Survey ($10 million).

Research and Related Activities. Included in the FY2003 request is $3.783 billion for Research and Related Activities (R&RA), a 5% increase ($185 million) over the FY2002 estimate of $3.599 billion. R&RA funds research projects, research facilities, and education and training activities. In the FY2003 request, the NSF has placed an emphasis on funding rates for new investigators and on increasing grant size and duration. The R&RA includes Integrative Activities (IA), created in FY1999. IA funds major research instrumentation, Science and Technology Centers, Science of Learning Centers, Partnerships for Innovation, disaster response research teams, and the Science and Technology Policy Institute. The FY2003 request for IA is $111 million, an increase of $4 million over FY2002.

Research project support in the FY2003 request totals $2.560 billion, an increase of 5% over FY2002. Support is provided to individuals and small groups conducting disciplinary and cross-disciplinary research. Included in the total for research projects is support for centers, proposed at $380 million. NSF supports a variety of individual centers and center programs. The request provides $45 million for Science and Technology Centers, $53 million for Materials Centers, $62 million for Engineering Research Centers, and $13 million for Physics Frontiers Centers. Research facility support in FY2003 is $1.122 billion, a 2% decrease from the FY2002 estimate.

Table 15. National Science Foundation Appropriations, FY1998 to FY2002

(budget authority in billions)

FY1998	FY1999	FY2000	FY2001	FY2002
$3.67	$3.90	$4.43	$4.79	$4.79

Source: Figures for FY1998-FY2001 are from administration budget submissions of subsequent years; figures for FY2002 are from the House Committee on Appropriations, and are the latest available estimates for that fiscal year. Final spending levels remain uncertain until all program experience has been recorded, and any supplemental appropriations or rescissions have been included.

Major Research Equipment; Facilities Construction. The Major Research Equipment and Facilities Construction (MREFC) account is funded at $126.3 million in FY2003, a 9% decrease ($12.5 million) from the FY2002 level. The MREFC, established in FY1995, supports the acquisition and construction of major research facilities and equipment that extend the boundaries of science, engineering, and technology. Seven projects are supported in this account for FY2003, five ongoing projects and two new projects – construction of the Atacama Large Millimeter Array ($30 million), the Large Hadron Collider ($9.7 million), the Network for Earthquake Engineering Simulation ($13.6 million), the South Pole Modernization Project ($6 million), Terascale Computing Systems ($20 million), Earthscope ($35 million), and the National Ecological Observatory Network, Phase I ($12 million). No funds are requested in FY2003 for the High-Performance Instrumented Airborne Platform for Environmental Research (HIAPER) or the IceCube R&D project because they have been determined to be of lower priority.

Education and Human Resources. The FY2003 request for the Education and Human Resources Directorate (EHR) is $908.1 million, a 3.8% increase ($33.1 million) over FY2002. Support at the various educational levels in the FY2003 request is as follows: precollege, $359.6 million; undergraduate, $157.4 million; and graduate, $136.9 million. Support at the precollege level includes $200 million for the Math and Science Partnership (MSP), a cornerstone of the President's education reform agenda. The MSP will provide funding for states and local school districts to join with colleges and universities to strengthen K-12 science and mathematics education.

Funding increases to $27 million for Centers for Learning and Teaching (CLT). The focus of the CLTs will be on developing the next generation of professionals to manage and direct the development of instructional materials, large scale assessments, and education research and evaluation.

Support will continue for Systemic Reform Initiatives and Instructional Materials Development. Selected programs at the undergraduate level are Advanced Technological Education, Louis Stokes Alliances for Minority Participation, Scholarship for Service, Historically Black Colleges and Universities-Undergraduate Program, and Tribal Colleges and Universities Program.

Table 16. Appropriations: National Science Foundation, FY2002-FY2003
(budget authority in billions)

Program	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 Conf.
Research, related activities	3.598	3.783	--	--	--
Major research equipment	.139	.126	--	--	--
Education, human resources	.875	.908	--	--	--
Salaries and expenses	.170	.203	--	--	--
Office of Inspector General	.007	.008	--	--	--
Subtotal (NSF)	**4.789**	**5.029**	**--**	**--**	**--**

Source: House Committee on Appropriations.

Note: Rounding may cause discrepancies in subtotals.

An increase of 21.7% in FY2003 for graduate level programs will allow NSF to raise the stipend of graduate fellows and to increase the number of offers to new fellowships. Support at this level is directed at the Graduate Research Fellowship, Graduate Teaching Fellows in K-12 Education, Integrative Graduate Education and Research Traineeships, and Alliances for Graduate Education and the Professoriate. Funding for the Experimental Program to Stimulate Competitive Research (EPSCoR) is $75 million. (An additional $30 million from R&RA will support EPSCoR activities.)

It is anticipated that the H-1B nonimmigrant petitioner fees collected in FY2003 will approximate $92.5 million, $2.5 million above the FY2002 estimate. (P.L. 106-313, The American Competitiveness in the 21st Century Act, stipulates that H-1B receipts be used for computer science, engineering, and mathematics scholarships for disadvantaged students and precollege private and public sector partnerships).

For additional information on NSF, see: CRS Report 95-307, *U.S. National Science Foundation: An Overview*.

Other Independent Agencies

In addition to funding for VA, HUD, EPA, FEMA, NASA and NSF, several other smaller "sundry independent agencies, boards, commissions, corporations, and offices" will receive their funding through the bill providing appropriations for VA, HUD, and Independent Agencies for the fiscal year beginning October 1, 2002.

Agency for Toxic Substances and Disease Registry. This agency, which is placed in the Department of Health and Human Services (HHS), manages the Toxic Substances and Environmental Public Health program, which issues toxicological profiles of possible toxic substances. The Agency conducts health studies, evaluations, or other activities, using biomedical testing, clinical evaluations, and medical monitoring. The agency was funded (via earmark) through EPA's Hazardous Substance Superfund through FY2000. P.L. 106-377 provided a separate line of $75 million for the agency for FY2001, although the Agency continued to be financed through the structure of the Superfund. The Administration proposed, and P.L. 107-73 provided $78 million for FY2002, continuing the separate funding line for its appropriations. The conference report requested that adequate funds be used for minority health professions, and for studies of the health effects of consuming Great Lakes fish.

For FY2003, the Administration's request rounds to a similar level, although it is actually $636,000 less than provided for FY2002.

American Battle Monuments Commission. The Commission is responsible for the construction and maintenance of memorials honoring Armed Forces battle achievements since 1917. Included among the Commission's functions are the maintenance of 24 American military cemeteries and 31 memorializations in 15 foreign countries, as well as three large memorials in the United States.

The Administration requested $30 million for the Commission for FY2003. P.L. 107-73 added $7 million to the Administration's FY2002 request of $28 million, in part, to complete scheduled, but delayed maintenance. Also, $5 million of the added amount was to provide for development of a visitor's center at the site of the D-Day invasion in Normandy.

In recent years, the Commission has received considerable attention as the agency that collects funds for the construction of a memorial in Washington, D.C. to honor those who served during World War II. The Commission projects that the World War II Memorial Fund will reach $175 million during FY2002. Congress has given the Commission authority to borrow up to $65 million from the U.S. Treasury to facilitate a more rapid completion of the memorial. P.L. 106-377 appropriated $28 million for the Commission for FY2001.

Cemeterial Expenses, Army. Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery are administered by the U.S. Army. By FY2001, 283,553 persons were interred/inurned in these cemeteries. In addition to almost 6,300 interments and inurnments each year, Arlington is the site of approximately 3,000 other ceremonies, and 4 million visitors, annually.

The Administration requested $24 million for these expenses for FY2003. P.L. 107-73 provided $23 million for FY2002, continuing with the expansion of Arlington National Cemetery into contiguous land sites previously used for military commands, and to fund another increment of the Columbarium Complex.

Chemical Safety and Hazard Investigation Board. The Board, which was authorized by the Clean Air Act Amendments of 1990, investigates hazardous substance spills or releases. Congress appropriated $8 million for FY2002. The Administration requests $8 million for FY2003.

Community Development Financial Institutions fund. The Community Development Financial Institutions (CDFI) fund was created by P.L. 103-325. The CDFI fund program was a Clinton Administration initiative to provide credit and investment capital to distressed urban and rural areas. The program also provides training and technical assistance to qualifying financial institutions. P.L. 104-19 modified the original Act by giving the Department of the Treasury the authority to manage the CDFI program, although the program continues to be funded through the VA/HUD bill. The program has survived despite attempts to eliminate it.

The Community Renewal Tax Relief Act of 2000 (P.L. 106-554) created the New Markets Tax Credit Program, administered by the Fund. Through this program the Fund allocates tax credits as part of an effort to expand incentives for business investment in low-income communities.

The Administration requested $68 million for the Fund for FY2003, $12 million less than the $80 million appropriated for FY2002, which was a decrease of 32% from the $118 million appropriated in FY2001. Included in the FY2002 appropriation was language providing a set-aside of $5 million for Native American, Alaskan Natives, and Native Hawaiian communities.

Consumer Product Safety Commission (CPSC). This Commission is an independent regulatory agency charged with protecting the public from unreasonable product risk and to research and develop uniform safety standards for consumer products. The Administration has requested $57 million for FY2003 for this Commission. P.L. 107-73 provided $55 to the Commission for FY2002.

Corporation for National and Community Service (CNS). The Corporation administers programs authorized under the National and Community Service Act of 1990 (NCSA) and the Domestic Volunteer Service Act of 1973 (DVSA). The DVSA programs — e.g., Foster Grandparents Program and Senior Companion Program — are funded under the Labor/HHS Appropriation bill. Authorization for CNS, and programs and activities authorized by NCSA, expired at the end of FY1996. Since then, continued program authority has occurred through the appropriations process.

In past Congresses, the key issue concerning the Corporation and the NCSA programs has been budgetary survival. Concerns expressed by some Members have included the issues of partisan activities, program costs, and federally funding a "paid volunteer" program. In recent years, concerns were specifically expressed about whether CNS could be audited and whether the audits were "clean." On April 4, 2001, CNS announced that it had received an unqualified or "clean" opinion on its fiscal 2000 financial statements.

In early 2001, President Bush announced his "faith-based initiative," and indicated his support of CNS by noting that it "has done some good work in mobilizing volunteers of all ages." More recently, in his November 8, 2001 address to the nation on homeland security, the president pledged to create new opportunities within AmeriCorps (and the DVSA Senior Corps) for public safety and public health efforts.

Table 17. Appropriations: Other Independent Agencies, FY2002-FY2003

(budget authority in billions)

Program	FY2002 enacted	FY2003 request	FY2003 House	FY2003 Senate	FY2003 Conf.
Agency for Toxic Substances and Disease Registry	.078	.078	--	--	--
American Battle Monuments Commission	.035	.030	--	--	--
Chem. Safety and Hazard Investigations Board	.008	.008	--	--	--
Cemetery Expenses, Army	.023	.024	--	--	--
Community Development Financial Institutions	.080	.068	--	--	--
Consumer Product Safety Commission	.055	.057	--	--	--
Corporation for National and Community Service[a]	.407	.636	--	--	--
Council, Environ. Quality; Office, Environ. Quality	.003	.003	--	--	--
Court of Appeals for Veterans Claims	.013	.015	--	--	--
Fed. Consumer Inform. Center	.007	.013	--	--	--
Federal Deposit Insurance Corporation (transfer)	*(.034)*	*(.031)*	--	--	--
National Credit Union Admin.	.001	.001	--	--	--
National Institute, Environmental Health Sciences	.070	.074	--	--	--
Emergency Supplemental	.011	.000	--	--	--
Neighborhood Reinvestment Corporation	.105	.105	--	--	--
Office, Science &Tech.	.005	.005	--	--	--
Selective Service System	.025	.026	--	--	--
Subtotal:	**0.926**	**1.143**	**--**	**--**	**--**

Source: House Committee on Appropriations

Note: Rounding may cause discrepancies in subtotals.

[a] Totals for NCS include $5 million, specified for the Corporation's Office of Inspector General, for each fiscal year.

The Administration requested a total of $637 million for FY2003, including $5 million for the Office of Inspector General (OIG). P.L. 107-73 provided total funding of $407.5 million for FY2002, including $5 million for the OIG.

For further information on the Corporation and its programs see: CRS Report RL30186, *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs*.

Council on Environmental Quality; Office of Environmental Quality. These two entities are within the Executive Office of the President. The Council oversees and coordinates interagency decisions in matters affecting the environment; the Office provides the professional and administrative staff for the Council. Congress appropriated $3 million for these activities for FY2002. The Administration requested $3 million for FY2003.

U.S. Court of Appeals for Veterans Claims. The U.S. Court Appeals for Veterans Claims has exclusive jurisdiction to review decisions of the Board of Veterans' Appeals, and has the authority to decide relevant conflicts in the interpretation of law by VA and the Board of Veterans' Appeals. The Court's decisions constitute precedent to guide subsequent decisions by that Board. Congress provided $13 million for FY2002; the Administration requested $15 million for FY2003.

Federal Consumer Information Center (FCIC). The Center, administered through the General Services Administration (GSA), helps federal agencies distribute consumer information and promotes public awareness of existing federal publications through publication of the quarterly *Consumer Information Catalogue*, and the *Consumer's Action Handbook.*

Congress provided $7 million for FY2002, and the Administration requested $13 million for FY2003. The increased funding would facilitate the development of a new Office of Civilian Services, which would act as a "portal" through which citizens could access an array of federal information and services, of which the FCIC would be an important part.

Federal Deposit Insurance Corporation. The FDIC's Office of the Inspector General is funded from deposit insurance funds, and has no direct support from federal taxpayers. Before FY1998, the amount was approved by the FDIC Board of Directors; the amount is now directly appropriated to ensure the independence of the IG office. P.L. 107-73 included the Administration's estimate of $34 million for FY2002; the Administration estimates $32 million for FY2003.

National Credit Union Administration. The purpose of this administrative office, created under the National Credit Union Central Liquidity Facility Act (P.L. 95-630), is to improve the general financial stability of credit unions. Subscribing credit unions may borrow from the agency to meet short-term requirements. Congress approves a limitation on administrative expenses, which are financed from the revolving fund ($257,000 for FY2000; $296,000 for FY2001). Congress also approved a revolving loan program for credit union risk pooling for FY2000, with a subsidy of $1 million; P.L. 106-377 repeated that amount for FY2001, P.L. 107.73

approved that amount for FY2002, and the Administration requested the same level for FY2003.

National Institute of Environmental Health Sciences. This Institute is within the National Institutes of Health, administered by the Department of Health and Human Services (HHS). P.L. 107-73 included $70.2 million for FY2002; subsequent to the events of September 11, Congress added $10.5 million in supplemental emergency funds, for "worker training, education, and research" activities. The Administration requested $74 million for FY2003.

Neighborhood Reinvestment Corporation (NRC). The NRC leverages funds for reinvestment in older neighborhoods through community-based organizations called Neighbor Works. Among projects supported by the financing activities of the NRC are lending activities for home ownership of low-income families. Nationwide, there are 184 of these organizations, serving 825 communities in 45 states, with 70% of the people served living in very low and low-income brackets.

P.L. 107-73 provided $105 million for FY2002, including an Administration proposal that the NRC become more involved in combining Section 8 housing assistance, counseling, conventional mortgages, and NRC revolving funds to help low-income families to purchase their own homes, and designating $10 million to support the Section 8 home ownership program. The conference agreement also endorsed the Corporation's efforts to expand the available stock of "mixed-income" affordable rental housing through the use of "mutual housing," as well as acquisition and preservation of existing units. The Corporation was directed to provide a detailed accounting of how many families are being helped through the activities of the Corporation's program to expand affordable housing.

The Administration requested $105 million for FY2003, to continue NRC efforts to stimulate low-income home ownership.

Office of Science and Technology Policy. The Office of Science and Technology Policy coordinates science and technology policy for the White House. The Office provides scientific and technological information, analysis and advice to the President and the executive branch, and reviews and participates in the formulation of national policies affecting those areas. Congress provided $5 million for the Office for FY2002, and directed the Office to make a priority its effort to clarify the International Traffic in Arms Regulation. The Administration requested $5 million for FY2003.

Selective Service System (SSS). The Administration requested $26 million for this function for FY2003. Congress appropriated $25 million for FY2002. The SSS was created to supply manpower to the U.S. Armed Forces during time of national emergency. Although since 1973, the Armed Forces have been on voluntary recruitment and incentives, the SSS remains the primary vehicle for conscription should it become necessary. In 1987, the SSS was given the task of developing a post-mobilization health care system that would assist with providing the Armed Forces with health care personnel in time of emergency.

Selected World Wide Web Sites

Federal Consumer Information Center (FCIC) [http://www.pueblo.gsa.gov] and [http://www.info.gov/]

Environmental Protection Agency (EPA), Summary and Justification of Budget. [http://www.epa.gov/ocfopage]

Corporation for National and Community Service [http://www.cns.gov/]

Department of Housing and Urban Development (HUD). [http://www.hud.gov]

Federal Emergency Management Agency (FEMA) [http://www.fema.gov]

National Aeronautics and Space Administration (NASA). [http://www.hq.nasa.gov]

National Science Foundation (NSF). [http://www.nsf.gov]

Office of Management and Budget (OMB). [http://www.whitehouse.gov/omb/]

Department of Veterans Affairs (VA). [http://www.va.gov]

Additional Reading

CRS Report RL30803, *Veterans Issues in the 107th Congress*, by Dennis Snook.

CRS Report RL30916, *Housing Issues in the 107th Congress*, by Richard Bourdon.

CRS Report RL30486, *Housing the Poor: Federal Programs for Low-Income Families*, Morton J. Schussheim.

CRS Report RL30589, *HOPE VI: The Revitalization of Severely Distressed Public Housing*, by Susan M. Vanhorenbeck.

CRS Report RS20704, *Housing Opportunities for Persons with AIDS(HOPWA)* by M. Ann Wolfe.

CRS Report RL30442, *Homelessness: Recent Statistics and Targeted Federal Programs*, by M. Ann Wolfe.

CRS Report RS20670, *Temporary Suspension of New Mortgages under the FHA General and Special Risk Insurance Funds*, Bruce E Foote.

CRS Issue Brief IB10078, *Superfund and the Brownfields Issue in the 107th Congress*, Mark Reisch.

CRS Report 98-323, *Wastewater Treatment: Overview and Background,* by Claudia Copeland.

CRS Issue Brief IB10086, *The Environmental Protection Agency's FY2002 Budget*, by Martin R. Lee.

CRS Report RL30460, *The Federal Emergency Management Agency: Overview of Funding for Disaster Relief and Other Activities,* by Keith Alan Bea.

CRS Report RS20736, *Disaster Mitigation Act of 2000 (P.L. 106-390): Summary of New and Amended Provisions of the Stafford Disaster Relief Act,* by Keith Alan Bea.

CRS Report 95-307, *U.S. National Science Foundation: An Overview,* by Christine M. Matthews R. Lee.

CRS Report RL30186, *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs,* by Ann M. Lordeman.

CRS Report RL31037, *The National Aeronautics and Space Administration's FY2002 Budget Request: Description and Analysis,* by Richard E. Rowberg, and Marcia S. Smith.