Department of Housing and Urban Development
1978 Budget

Highlights

HUD Request

Secretary Hills has not submitted a complete set of budget estimates for either 1978 or 1979. Nor has she submitted her complete legislative program for the 95th Congress.

The Secretary has proposed to maintain the traditional 400,000-unit program level for subsidized rental housing, with section 8 reoriented to emphasize new construction. She also recommends continuing the elderly housing and rehabilitation loan programs at their 1977 levels. She admits that her estimate for community development block grants (1977 level plus an inflation offset) is preliminary; her staff indicates that an increase of $250-750 million is likely to be recommended. She has not come in with any proposals for changing the block grant program (which requires authorization for 1978) or FHA mortgage insurance operations.

OMB Recommendation

HVLD recommends a major cutback in the section 8 program (to 200,000 units), and a change in the allocations mechanism that would make the program more like a block grant. The Division recommendation would reduce 1978 budget authority for the section 8 program by $34 billion. The Division also recommends terminating the elderly housing, rehabilitation loan, and comprehensive planning programs. For community development block grants, Division recommends no change in funding for the basic program and elimination of the so-called Urgent Needs Fund. Finally, HVLD recommends legislation to put all FHA mortgage insurance programs on a actuarially sound basis.

Relationship to the Planning Ceiling

HUD request...........	+$883 million
OMB recommendation....	+$17 million

Budget Dollars at Stake (in millions)

Outlay differences between the HUD request and OMB recommendations (excluding estimating differences) are as follows:

1977	1978	1979	1980	1981	1982
35	866	1,094	1,434	2,139	3,020

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Housing Crosscut

OVERVIEW

1978 Budget

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Overview

This overview attempts to examine the resource level and allocations contained in the Department of Housing and Urban Development's (HUD's) 1978 budget request in the context of the broad goals and management objectives identified by the Department in its:

(a) Presidential Management Initiatives (PMI).

(b) Goals Management System, including the tentative FY 1977 Secretarial Management by Objective (MBO) targets.

In many ways, such a comparison can be misleading.

. First, budget outlays for HUD in any one year are largely dominated by prior-year obligations and commitments. About 86 percent of HUD's requested level of 1978 outlays result from obligations incurred before the start of 1978.

. Second, many current-year obligations have a minimal impact on outlays in the first year or two. Section 8/new construction is the classic example.

. Third, the relationship between budget authority and outlays on the one hand, and the delivery of services to appropriate recipient groups on the other hand, also varies among programs. In some cases, this is due to the financial instrument used--whether loans or grants. Hence, net outlay figures can often mask the actual level of program activity. In other cases, outlays do not correlate closely with services provided, as the mix issue for section 8 indicates.

Despite these difficulties, this approach may prove helpful in highlighting;

(a) Conflicts between objectives in different program areas.

(b) Inconsistencies between program objectives and internal program allocation decisions.

(c) The relationship, or lack thereof, among the Department's Planning, Management, and Evaluation systems and the impact of these systems on the resource allocations reflected in the budget request.

Basic HUD Goals

Despite numerous variations reflected in specific housing legislation for the past 40 years, HUD's basic goal remains that established in the 1949 Housing Act--to provide a decent home and a suitable living environment for every American family. Recently, emphasis has shifted to a more specific group, the low-income families, consistent with the 1968 Housing Act. Other Federal legislation has established numerous subgoals or side constraints to this basic dual-purpose goal (adequate, affordable housing, especially for low-income families, and a suitable living environment). Among the major side constraints are:

- Stimulating housing construction and local economic recovery.
- Achieving equal opportunity in housing.
- Reducing the cost of housing.
- Improving credit market operations to ensure adequate availability of mortgage credit for single- and multifamily dwellings.
- Protecting consumer interest through improved housing standards and other actions.

Given this multiplicity of subgoals or side constraints, some of which present obvious internal conflicts, the potential for program conflicts and inconsistencies is substantial.

Inconsistencies Among Program Objectives

A fundamental inconsistency exists among the objectives of 1) providing adequate housing, especially for low-income families; 2) stimulating housing construction; and 3) the strongly expressed desire of Secretary Hills to preserve neighborhoods by utilizing existing housing assets. While HUD has abandoned the old urban renewal strategy of raze-and-build-anew for community development, Secretary Hills still places heavy emphasis on new construction for low-income families, under both section 8 and public housing. For section 8, the Secretary proposes a 400,000-program level in 1978 with a 57 percent/43 percent mix between new and existing housing. For public housing, the Secretary proposes to use $140.7 million in contract authority in 1977 ($5.6 billion of budget authority) to construct 44,000 units of traditional public housing. She also proposes to use any unused contract authority earmarked for public housing for new units in 1978. While congressional pressure for new construction is intense there appears to be little programmatic justification for it. Housing starts are projected to increase to 1.8 million in 1978, a level which exceeds the level of annual housing starts of the last 10 years, except for the 1971-73 boom. This level is also consistent with HUD's own estimates of long-term equilibrium in the housing market. Moreover, HUD and OMB staff agree that existing units provide adequate housing to low-income families sooner and at a lower cost than new units.

OMB is recommending a block grant type approach to section 8 which would meet congressional interest in satisfying local priorities in the housing assistance areas. Under this procedure, HUD would allocate budget authority to local communities, rather than new or existing units, and allow local communities to select the appropriate mix, given the relative costs of new and existing units. Total budget authority would be based on a 200,000 unit program level achieved in the most efficient manner--all existing units. Local communities would have the option of trading off more units for new construction.

A second inconsistency among program objectives is reflected in the Secretary's proposal to place a ceiling on the use of section 8 subsidies to assist financially troubled FHA insured properties in the face of an increasingly serious HUD multi-family inventory problem. THe HUD inventory of multifamily properties has increased dramatically in the past few years and is projected to remain in excess of 200,000 units in 1978 and 1979. The Secretary's projection assumes a substantial (three-fold) increase in 1978 mulitfamily sales above the current 1976 levels. To achieve this, OMB believes HUD will have to abandon its past policies and adopt a tough foreclose and sell approach to defaulting nonprofit sponsors. Current HUD management initiatives have focused on sales targets, whereas OMB proposes establishing inventory targets in the Goals Management and Presidential Management Initiatives Systems. Shifting the focus to inventory control will encourage HUD to examine and emphasize alternatives for reducing assignments (especially greater use of section 8 and allowing assignments only at HUD's discretion), as well as continuing the Department's efforts to increase sales.

A third major inconsistency between program objectives concerns HUD's strategy for meeting elderly housing needs. Again, the conflict concerns the need for new construction to meet elderly housing needs in contrast to meeting them by relying on rental assistance for existing units. The Secretary has proposed continuing the 202 elderly housing program at its current $750 million limit (and bringing it back on-budget), even though this program:

- Adds virtually nothing to the section 8/new construction subsidy which is both necessary and sufficient to ensure that these units are constructed.

- Is far more costly than the existing section 8 program.

- Has a longer lead time to satisfy current elderly housing needs than the existing section 8 program.

- Has a minimal impact on the total supply of available housing.

- Emphasizes the sponsor group with the worst management record.

OMB believes that the section 8/existing program, which is being extensively used to meet the needs of the elderly (33 percent of subsidy recipients are elderly) is a more effective and efficient approach. Consequently, OMB has proposed terminating the 202 program and substituting a set-aside of 30,000 units per year under the existing section 8 program to meet those needs.

A final major inconsistency among program objectives involves the Community Development Block Grant (CDBG) Program, the inclusion of a seperate Urgent Needs Fund within the program, and the status of Urban Renewal closeouts. Under the Housing and Community Development Act of 1974, the CDBG program supersedes all previous categorical community development programs. However, the Secretary's request to continue in 1978 a $100 million seperate Urgent Needs fund reduces pressures to use CDBG funds to closeout prior categorical programs, especially Urban Renewal. Since the promise of supplementary funding over and above CDBG allocations reduces the incentive for local communities to pursue early project closeouts, OMB has recommended termination of this separate fund in 1978.

Three major issues regarding the community development area are still open. First, although the 1974 Housing and Community Development Act identified a number of "objectives" for the CDBG program, our review of those objectives suggests that most, if not all, could be easily met under general revenue. While not inconsistent with general revenue sharing, the need for a separate "categorical" revenue sharing program, such as CDBG program, is open to debate.

Second, OMB is deeply disturbed by the apparent lack of urgency in HUD's plans to closeout the Urban Renewal Program. Indeed, there appears to be some uncertainty about the number of remaining urban renewal projects and the extent of the Federal obligation. HUD currently estimates that as of June 30, 1976, outstanding loan authority, including undisbursed authority for urban renewal projects, amounted to $3.8 billion. The Federal Government has undisbursed grant commitments of $2.4 billion to repay the loan balance, with the remaining $1.4 billion to be paid from local property disposition receipts or other sources. HUD's tentative estimates, however, show a $500 million shortfall in local monies available to repay the $1.4 billion. OMB would recommend a joint effort by OMB and HUD to develop alternative strategies for an early closeout of these projects, possibly by the end of FY 1978, and to assess this approach relative to the current procedures.

Finally, the Department has made no recommendations regarding reauthorization of the CDBG program in 1978. In fact, although the Secretary's budget request mentions a $3.4 billion funding level for 1978, indications are that she will soon be coming in with a proposal to raise the level to perhaps as high as $4 billion.

Inconsistencies Between Objectives and Resource Allocation

There appear to be several inconsistencies in the allocation of resources for subsidized housing and HUD's overall goal of providing adequate housing for families especially the low-income families.

. Under the section 8/existing program, HUD targets at least 30 percent of its funds toward the "very low-income" families, those whose income is less than 50 percent of median family income. However, the current procedure for establishing fair market rents (FMRs) at median rent levels makes the program attractive to higher income families and far more costly than necessary. OMB proposes reducing the FMR standard to 80 percent of median rents to focus the program more directly on these very low-income families.

. HUD continues to allow different rent levels for low-income families residing in public housing compared with families living in subsidized (section 8) private housing. Since the tenant groups are substantially the same, this differential serves no fundamental social objective and OMB has recommended establishing the same rent standard (25 percent of adjusted incomes) for both groups.

There are also some inconsistencies between program objectives and the allocation of resources within the FHA Fund in addition to the multifamily inventory problems previously described.

. Although the Secretary is believed to have endorsed the major recommendations of the HUD/OMB study of the Future Role of the Federal Housing Administration, the impact of the major recommendations has not been reflected in her 1978 budget request. OMB recommends including the impact. The major recommendations would:

- Establish complementarity between FHA and private mortgage insurers (PMIs) in the single-family market, and encourage PMI penetration of the multifamily market.

- Establish actuarially sound premiums for FHA mortgage insurance.

- Eliminate subsidized insurance premium programs for low-income families, and for homes in older, declining areas (except for section 235).

. The Secretary has proposed switching the emphasis in single-family property disposition from as-is/cash sales to repair-and-sell. Since the repair-and-sell approach retains properties in the inventory longer than the as-is/cash approach, this will slow the rate of inventory reduction. HUD should be able to meet its projected sales objective, given the reduction in single-family defaults now occurring. However, OMB recommends establishing inventory targets for the single-family inventory and has proposed a more demanding targetted inventory level to encourage continued use of the as-is/cash sales approach.

Management, Planning and Evaluation Systems

As indicated earlier, HUD has a well developed Goals Management System (GMS) for establishing and tracking objectives which has been actively used by the Secretary. In FY 1976, the majority of HUD objectives were completed or on schedule as of June 30, 1976, and substantial progress was made in some major problem areas such as Title VIII equal opportunity complaints and multifamily sales. During FY 1976, HUD also completed institutionalization of its management system. FY 1977 objectives and resource allocation plans were negotiated between central and field offices. Departmental managers have agreed to these objectives and they will be evaluated on their performance against goals in the newly established executive evaluation process.

The current GMS provides a very useful function as a monitoring and decision implementing system. The GMS is closely linked to the HUD budget process once budget decisions are made. However, its contribution toward developing and assessing budget alternatives appears limited. For example, while FY 1977 objectives have been finalized, a set of definitive 1978 objectives await the completion of the budget cycle.

HUD appears to have a much less formalized system for establishing planning objectives (as distinct from the operational objectives contained in the GMS), evaluating alternative program strategies, and determining specific resource tradeoffs. HUD has developed a systematic process for budget issue identification, similar in many respects to OMB's spring planning review. The results of the various PD&R evaluation studies, and the efficiency evaluations undertaken as part of the PMI process are incorporated in this process to assist in the HUD planning and decisionmaking process.

HUD's research program has improved significantly over the last few years as the Department has strengthened its economic analysis and program evaluation capabilities. For 1977, HUD has substantial evaluation plans. In fact, although not yet formally requested through PMI, HUD has submitted an extensive list of program impact evaluation plans. These include such major program areas as section 8, Performance Funding System (PFS), Housing Assistance plans, revised section 235, section 202 elderly housing, GNMA countercyclical programs, equal opportunity, coinsurance, CDBG, rehabilitation, Title VIII, mortgage interest tax deductions, and the future of homeownership. In addition, HUD plans to undertake and implement several efficiency evaluations such as FHA loan processing and equal opportunity enforcement programs.

Our main concern with regard to evaluation is whether such an ambitious evaluation program can be conducted effectively in FY 1977 and provide meaningful and timely data for future program decisions. A prioritized listing should be developed and the progress of key evaluations carefully monitored.

HUD has already made substantial progress in many of the areas included in the Presidential Management Initiatives. Particularly noteworthy has been HUD's efforts to develop and implement productivity standards through its work measurement system. This system has been expanded to include about 73 percent of the HUD staff requested in its 1978 budget. The system has been used by both HUD and OMB to estimate the staff impact of major program adjustments. One potential weakness in the current system, discussed at our Department Management hearing, is the lack of any comparative evaluations of HUD and private industry work standards. The Department has indicated that this will be included in its evaluation efforts for next year.

A number of the specific OMB recommendations included in the issue papers suggest incorporation of specific decisions (e.g., targets for FHA single- and multifamily inventories) into the PMI and GMS processes to ensure adequate high-level focus. Given the effectiveness of these systems and the Secretary's personal involvement, this will quickly indicate to the Department the relative importance of these recommendations.

Summary of Remaining Issues

The Secretary's budget request raised several other more traditional budget issues that are summarized below:

. The Secretary has again requested a separate appropriation for planning monies (701) of $80 million in 1978, and has also requested an additional $15 million for community development technical assistance. OMB continues to believe that these activities should be funded under the CDBG program.

. Another traditional issue is Rehabilitation Loans (section 312). The Secretary has requested extending the program through 1978; OMB recommends terminating the program in 1977.

. HUD has requested a 1977 supplemental of $35 million to provide changes in (a) the formula for determining cost standards under the PFS, and (b) the current inflation adjustment increasing it from 3 percent to 6 percent. OMB recommends that a major HUD-OMB evaluation of the PFS approach be undertaken next year and that no changes be made pending results of that evaluation.

. HUD has included $200 million in its CDBG to achieve the President's Bicentennial Land Heritage Program. OMB recommends against resubmitting the proposal to Congress.

PROGRAM TRENDS

1978 DIRECTOR's REVIEW
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Selected Program Trends
(dollars in millions)

	1969	1970	1971	1972	1973	1974	1975	1976	1977 OMB Rec.	1978 HUD Req.	1978 OMB Rec.	1979 HUD Req.	1979 OMB Rec.
I. Mortgage Insurance													
A. Mortgage insurance written:													
Units	564,092	644,106	838,559	830,458	538,880	316,972	292,261	320,500	430,000	487,000	450,000	587,000	450,00
Amount ($)	8,022	9,394	13,037	14,017	9,307	5,638	6,182	7,384	9,900	11,200	10,400	13,500	10,40
B. Mortgage assignments and property acquisitions:													
Single family	30,775	28,073	38,052	57,785	66,889	62,647	54,427	38,000	39,600	36,700	36,700	NA	NA
Multifamily	12,596	7,468	15,711	20,450	39,396	49,127	76,436	75,369	85,800	105,700	105,700	NA	NA
Inventory on hand	98,611	97,191	117,220	155,552	202,811	238,316	272,725	304,273	280,000	338,600	286,000	NA	NA
II. Other Mortgage Credit													
A. Special mortgage purchase commitments ($) *	---	---	---	2,873	1,773	2,381	11,410	4,676	1,900	---	---	---	--
B. Guarantees of mortgage-backed securities issued ($)	---	441	3,200	3,500	3,607	4,125	5,905	8,998	10,000	10,000	10,000	10,000	10,00
III. Subsidized Housing													
A. New approvals:													
Units	178,000	417,000	420,000	453,000	120,000	38,000	170,000	320,000	401,000	500,000	301,000	500,000	301,00
Obligations ($)	10,979	15,887	16,879	17,653	5,407	2,008	11,121	24,599	24,468	26,900	6,700	27,100	1,62
B. Subsidy costs:													
Housing payments ($)	374	488	704	1,054	1,312	1,614	1,704	1,952	2,429	3,116	3,068	4,099	3,97
Public housing operating subsidies ($)	13	28	103	233	348	320	475	535	576	719	533	848	63
IV. Community Development and Other													
A. Community development:													
New commitments ($)	1,642	1,633	1,880	2,471	2,361	716	2,735	2,443	3,298	3,561	3,148	3,494	3,14
Outlays ($)	794	1,379	1,594	1,958	1,865	1,872	1,973	2,456	3,679	3,896	3,683	3,678	3,43
B. Comprehensive planning grant commitments ($)	43	50	50	100	100	75	100	66	62	80	---	80	--
C. Flood Insurance outlays ($)	1	1	3	7	14	51	44	95	179	201	201	259	25
D. Research obligations ($)	11	24	43	44	60	67	59	61	55	75	55	75	5

* Tandem programs for nonsubsidized mortgages.

SUMMARY INFORMATION

Department of Housing and Urban Development
1978 Budget

Summary Data

	(In millions) Budget Authority	Outlays	Employment, EOY Full-time Permanent	Total
1976 actual	29,263	7,079	14,942	16,400
1977 Budget, January 76 estimate	21,714	7,174	15,650	17,000
enacted	20,399	7,810	xxx	xxx
supplementals recommended (see attached list).	818	75	xxx	xxx
agency request	21,465	7,810	15,580	16,900
OMB recommendation	21,217	7,775	15,570	16,890
OMB employment ceiling	xxx	xxx	15,650	17,000
1978 planning target	xxx	9,145	xxx	xxx
agency request	49,053	10,028	16,870	18,170
OMB recommendation	10,997	9,162	15,564	16,899
1979 OMB estimate	10,885	9,989	15,270	16,595

Summary of Issues#

Issues:	1978 Agency Request BA	1978 Agency Request O	1978 OMB Recom. BA	1978 OMB Recom. O	1979 Agency Request BA	1979 Agency Request O	1979 OMB Recom. BA	1979 OMB Recom. O
1. Section 8/Low-Income Housing Assistance								
A. Level/Mix of Section 8	40,300	800	6,700	810	42,800	1,575	7,200	1,615
B. Use of Section 8 for FHA	1,452	1,362	1,250	1,160	1,212	1,212	1,010	1,010
C. Fair Market Rents	40,300	800	35,578	746	42,800	1,575	37,766	1,439
D. Contract Terms for New Units	40,300	800	23,200	800	42,800	1,575	24,200	1,575
2. Elderly Housing (Section 202)	(750)*	(738)	(---)	(730)	750*	778	---	212
3. Public Housing								
A. Operating Subsidies	719	618	533	433	848	765	639	556
B. Public Housing Notes	131	131	---	---	1,659	1,659	---	---
4. Federal Housing Administration								
A. Future Role of FHA	1,452	1,362	1,432	1,342	1,212	1,212	1,175	1,175
B. Single-Family Inventory	1,452	1,362	1,368	1,279	1,212	1,212	1,194	1,194
C. Multifamily Inventory	1,452	1,362	1,287**	1,197**	1,212	1,212	1,047**	1,047**
5. Counseling	6	6	---	---	6	6	---	---
6. Miscellaneous Housing Issues								
A. Urban Homesteading	15	15	15	15	15	15	15	15
B. Indian Housing	1,056	26	176	22	1,161	29	194	5
C. College Housing	---	---	---	---	---	---	---	---
7. Community Development Block Grants								
A. Funding Level	3,344	3,013***	3,148	3,001	3,344	3,177***	3,148	3,077
B. Urgent Needs	100	100	---	---	100	100	---	---
C. Formula Changes	---	---	---	---	---	---	---	---
D. Other Changes	---	---	---	---	---	---	---	---
8. Rehabilitation Loans (Section 312)	---	39***	---	26	---	57***	---	---
9. Categorical Planning Funds	80	59***	---	43	80	77***	---	13
10. Departmental Management								
A. Staffing****	237	237	220	220	237	237	216	216
B. Automatic Data Processing	24	24	23	23	N/A	N/A	N/A	N/A

	1978				1979			
	Agency Request		OMB Recom.		Agency Request		OMB Recom.	
	BA	O	BA	O	BA	O	BA	O
1. Other Issues								
A. Bicentennial Land Heritage	---	90***	---	---	---	76***	---	---
B. National Institute of Building Sciences	5	5	---	---	---	2	---	---

* Loan Limitation
** An annual reduction of $165 million for sales of multifamily units acquired by deed-in-lieu is addressed in the issue, but not included in the internal OMB recommended totals.
*** OMB reestimate of HUD outlays.
**** Does not include transfers from FHA Fund and other sources.
# Individual line items reflect independent estimates for each issue.

Department of Housing and Urban Development
1978 Budget

Distribution of Budget Authority
(in millions of dollars)

	1976	1977			1978		1979
	Actual	Jan. Budget	HUD Req.	OMB Rec.	HUD Req.	OMB Rec.	OMB Est.
A. Open-ended programs and fixed costs (relatively uncontrollable under present law)							
FHA Fund........................	1,231	975	1,995	1,995	1,478	1,201	955
Subtotal, open-ended programs and fixed costs......................	1,231	975	1,995	1,995	1,478	1,201	955
B. Discretionary programs (relatively controllable)							
1. Annual Contributions for Assisted Housing.............	18,052	16,578	14,890	14,890	42,774	5,636	5,636
2. Community development grants...	2,802	3,248	3,248	3,248	3,444	3,148	3,148
3. GNMA Special Assistance Functions......................	4,757	8	8	8	8	8	8
4. Payments for Operation of Low-Income Housing Projects.......	535	464	611	576	719	533	639
5. Salaries and Expenses..........	177	201	203	203	237	220	216
6. New Communities Fund...........	8	25	113	113	82	82	75
7. Housing for the Elderly or Handicapped 1/................	(612)	(356)	(731)	(731)	(722)	(---)	---
8. Planning and Management Assistance 3/.................	75	25	62	62	95	---	---
9. Flood Insurance................	70	100	75	75	108	108	139

	1976 Actual	1977 Jan. Budget	1977 HUD Req.	1977 OMB Rec.	1978 HUD Req.	1978 OMB Rec.	1979 OMB Est.
10. Research and Technology.....	53	71	67	55	87	55	55
11. Other......................	1,503 2/	19	+193	-8	21	6	14
Subtotal, discretionary programs.	28,032	20,739	19,470	19,222	47,575	9,796	9,930
Total, budget authority.....	29,263	21,714	21,465	21,217	49,053	10,997	10,885
Funds Appropriated to the President for Disaster Relief..................	150	100	250	100	100	150	150

1/ HUD proposes placing Housing for the Elderly or Handicapped on-budget in 1978.
2/ Includes $800 million for rent supplement program and $600 million for State Housing Finance and Development Agencies.
3/ Includes Comprehensive Planning Grants and CDBG Technical Assistance.

Numbers in parentheses indicate off-budget items.

Department of Housing and Urban Development
1978 Budget

Distribution of Outlays
(in millions of dollars)

	1976	1977			1978		1979
	Actual	Jan. Budget	HUD Req.	OMB Rec.	HUD Req.	OMB Rec.	OMB Est.
A. Open-ended programs and fixed costs (relatively uncontrollable under present law):							
1. Housing Payments (from prior years)............	1,952	2,570	2,369	2,369	3,050	3,002	3,979
2. Federal Housing Administration Fund..........	1,191	830	1,042	1,042	1,362	1,111	955
Subtotal, open-ended programs and fixed costs..............	3,143	3,400	3,411	3,411	4,412	4,113	4,934
B. Discretionary programs (relatively controllable):							
1. Community Development Grants..................	983	1,600	2,482*	2,482	3,113*	3,001	3,077
2. Urban Renewal............	1,188	975	975	975	650*	650	491
3. GNMA Special Assistance Functions...............	658	186	-550	-550	299	299	269
4. Payments for Operation of Low-Income Housing Projects................	508	462	542	527	618	433	556
5. Salaries and Expenses....	177	201	203	203	237	220	216
6. Flood Insurance..........	95	201	179	179	201	201	259
7. Housing for the Elderly or the Handicapped......	(-15)	(111)	(265)	(265)	(738)	(730)	212

* OMB revised estimate of HUD request.

	1976	1977			1978		1979
	Actual	Jan. Budget	HUD Req.	OMB Rec.	HUD Req.	OMB Rec.	OMB Est.
8. Planning and Management Assistance*...............	94	75	100	100	69**	43	13
9. Housing Payments (from CY and BY)...................	---	---	60	60	66	66	---
10. Research and Technology....	54	67	67	59	79	55	55
11. New Communities............	14	30	116	116	87	87	80
12. Expiring community development programs......	263	19	196	196	66**	44	-135
13. Other HUD programs.........	-98	-42	29	17	131	-50	-38
Subtotal, discretionary programs	3,936	3,774	4,399	4,364	5,616	5,049	5,055
Total, outlays.............	7,079	7,174	7,810	7,775	10,028	9,162	9,989
Funds Appropriated to the President for Disaster Relief.....................	291	250	358	300	200	150	150

* Includes Comprehensive Planning Grants and CDBG Technical Assistance.

** OMB revised estimate of HUD request.

NOTE: Numbers in parentheses indicate off-budget items.

Department of Housing and Urban Development
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Long-range Estimates
(OMB estimate in millions of dollars)

			1978	1979	1980	1981	1982
A.	Annual Contributions for Assisted Housing........................	BA	7,179	5,636	5,636	5,636	5,636
		O	---	---	---	---	---
B.	Housing Payments..................	BA	---	---	---	---	---
		O	3,068	3,979	4,472	5,109	5,568
C.	Community Development Grants.....	BA	3,148	3,148	3,148	3,148	3,148
		O	3,001	3,077	3,148	3,148	3,148
D.	Urban Renewal....................	BA	---	---	---	---	---
		O	650	491	200	---	---
E.	FHA Fund.........................	BA	1,201	955	965	982	1,013
		O	1,111	955	965	982	1,013
F.	Payments for Operation of Low-Income Housing Projects.........	BA	533	639	755	855	940
		O	433	556	667	755	867
G.	GNMA Special Assistance..........	BA	8	8	8	8	7
		O	299	269	142	72	50
H.	Flood Insurance..................	BA	108	139	146	145	115
		O	201	259	314	368	394
I.	Salaries and Expenses............	BA	220	216	216	216	216
		O	220	216	216	216	216
J.	Housing for the Elderly or Handicapped......................	BA	(---)	---	---	---	---
		O	(730)	212	-90	-119	-119

		1978	1979	1980	1981	1982
K. Comprehensive Planning............	BA	---	---	---	---	---
	0	43	13	---	---	---
L. Research and Technology...........	BA	55	55	55	55	55
	0	55	55	55	55	55
M. Other HUD.........................	BA	88	89	49	52	56
	0	81	-93	-137	-182	-147
Total................................	BA	10,997	10,885	10,978	11,097	11,186
	0	9,162	9,989	9,952	10,424	11,045

Summary Comparison of Outlay Projections

	1978	1979	1980	1981	1982
1977 Budget, January 1976 estimates...............	8,796	9,806	10,506	12,265	NA
1977 Budget, Mid-Session Review estimates...........................	8,531	9,230	9,810	11,415	NA

#1. LOWER INCOME
HOUSING

Issue Paper
Department of Housing and Urban Development
1978 Budget
Issue #1: Lower Income Housing Assistance

SUBISSUE A: Level and Mix of Housing Programs

Statement of Issue

What should be the level of assisted section 8 housing planned for 1978 and 1979? How should that level be distributed between new/existing units?

Background

The section 8 program has grown rapidly and has become HUD's principal vehicle for providing direct housing assistance to consumers.

	1975	1976/TQ Budget	Unit Reservation 1976/TQ Actual	1977
Section 8				
New Construction	NA	125,000	NA	119,310
Substantial Rehab.	2,825		NA	26,700
Existing	55,000	165,000	NA	108,946
Loan Management	---	110,000	NA	---
Total, Section 8......	57,825	400,000	489,000	242,266

In FY 1976 and the transition quarter, HUD made commitments to subsidize 489,000 units under the section 8 program. This represents a significant increase above the 400,000 units provided for in the FY 1976 and transition quarter budget. The current budget program for FY 1977 reflects a sharp decline in section 8 activity from the 400,000-unit budget program. This is a result of three factors: (1) higher-than-expected activity in 1976 which reduced the amount of contract authority carried into FY 1977; (2) a $2 billion cut in 1977 budget authority below the President's request;

and (3) congressional actions to shift the mix toward the more expensive new and substantially rehabilitated units. Because the Housing Authorization Act of 1976 directed the Secretary to "provide assistance for new, substantially rehabilitated, and existing units, to the maximum extent practicable and consistent with" the local housing goals established by communities in their housing assistance plans (HAP's), HUD has planned a 57 percent/43 percent new/existing mix for 1977, 1978, and 1979 based on the simple average distribution of new/existing units obtained from 1976 local HAP plans.

Alternatives

#1. Provide for 394,000 section 8 annual reservations in FY 1978 and FY 1979 with a 57 percent/43 percent mix of new/existing units (HUD request.)

#2. Provide for 394,000 section 8 annual reservations in FY 1978 and FY 1979, but limit to existing units only.

#3. Provide for 294,000 section 8 annual reservations in 1978 and 1979, but limit to existing units.

#4. Provide for 200,000 section 8 annual reservations in 1978 and 1979, but limit to existing units (OMB recommendation.)

Analysis

Budget Authority/Outlays	1976		1977		1978		1979		1980		1981		1982	
($ in Billions)	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Current policy:	29.8	.03	9.3	.35	26.9	.80	27.1	1.58	29.4	2.15	32.2	3.40	34.8	4.70
Change from current policy:														
Alt. #1 (HUD request)*	---	---	---	---	+13.4	---	+15.7	---	+17.0	---	+18.3	---	+19.7	---
Alt. #2	---	---	---	---	-13.8	+.11	-12.9	+.38	-14.0	+.57	-14.5	+.51	-15.2	+.47
Alt. #3	---	---	---	---	-17.1	+.06	-16.5	+.20	-17.9	+.25	-19.0	+.04	-20.2	-.18
Alt. #4 (OMB recom.)	---	---	---	---	-20.2	+.01	-19.9	+.04	-21.6	-.05	-23.2	-.42	-24.9	-.79

* HUD's BA request also reflects a proposed increase in contract term for new units to 40 years from the current 20 years. This issue is addressed in subissue D.

Both HUD and OMB staffs agree that if our principal objective is to maximize the number of low-income families residing in affordable, decent housing, reserving existing units under section 8 is more efficient than using new or substantially rehabilitated units. Not only is the marginal cost of using new or rehabilitated units substantially higher, but the lag time between reservation and occupancy for new or substantially rehabilitated units is more than two-and-one-half times what it is for existing units. The average lag time for existing units is 9 months, while the lag time for new and substantially rehabilitated units covers from 24 to 30 months. Table 1 below compares HUD's current 1978 estimates of average unit cost, excluding rental receipts, and the maximum government liability for new, substantially rehabilitated, and existing units.

	Average Unit Cost	Contract Term	Maximum Liability Per Unit
New Private	4,300	20	86,000
New (HFDA)	4,800	40	192,000
Rehabilitation	4,600	20	92,000
Existing	2,400	15	36,000

Need for New Construction

HUD would maintain that new or substantially rehabilitated units are needed because:

-- The multifamily sector of the housing market had been severely depressed for some time and needs a continuing stimulus.

-- A June 26 PD&R evaluation of section 8 indicated that large families looking for three and four bedroom houses were having difficulty finding suitable units. 1974 Annual Housing Survey data indicate about 976,000 large low-income renter families were overcrowded and these families require different housing from that currently occupied.

-- Local communities in their 1976 HAP's expressed a strong preference for new units, and Congress, through the language in the 1976 Housing Authorization Act and related Committee reports, was quite explicit in directing HUD to follow these local preferences to the maximum extent practicable.

OMB staff contend that a new construction program is not needed now because:

-- Multifamily starts have shown a dramatic improvement in September 1976 and current forecasts of housing starts project a relatively healthly level of activity.

-- The PD&R evaluation indicated that difficulties of large families could be due not to a supply shortage but to inadequate fair market rents under section 8, to landlord reluctance to rent to large, poor families, or to the limitation of jurisdictional boundaries for local communities. The evaluation also noted that demographic and economic factors were combining to reduce the incidence of crowded housing for large, poor families - a 12 percent decline was recorded between 1973 and 1974, a recession year - and, thus, the study concluded "a new construction program might be useful for a few years, although it is likely that the dimensions of the problem will be reduced still further before such a program could be put underway."

-- Given the considerable evidence of unit upgrading revealed by the PD&R evaluation, the existing program can be targeted to meet the needs of inadequately housed, smaller families or large, poor families currently living in physically deficient units.

-- The congressional language only directs that the section 8 program be administered as consistently as practicable with local HAP's. HUD can therefore develop a resource (dollar) level based on existing units, allocate the resources rather than units to local communities, and allow the communities to determine the number and type of units they wish to support given that resource constraint.

-- Any realistic level of new construction (HUD proposes 225,000 units) would have little impact on either the stock of housing (currently 76 million units) or market rents.

Other Considerations

Although the major policy issue concerns the need for a new construction stimulus, there are some additional programmatic and political issues that must be addressed. From a political standpoint, the significant increase in HUD BA, caused by the shift toward new construction, raises two potential problems:

-- First, it affords Congress the opportunity to make small housing program cuts but announce major BA savings.

-- Second, it provides Congress the chance to increase substantially the programs with more immediate outlay impact while not exceeding the President's total BA ceiling.

From a program standpoint, OMB agrees with the Secretary's statement that "we must change our emphasis from 'reserving' assisted housing units to getting them built and occupied." However, OMB would emphasize "occupied" and thereby focus on the number of families receiving improved housing services within a given year. As the table below indicates, HUD's proposal would achieve the lowest number of occupied units in FY 1978 and FY 1979, from the 1978 and 1979 housing assistance program, and is one of the most costly programs over the next 5 years.

Families Assisted from 1978 and 1979 Section 8 Programs
(000's)

	1978	1979	1980	1981	1982	Total 72-82	Total Cost 78-82 (outlays in B$)
Alt. #1	71	243	406	642	788	788	3.30
Alt. #2	161.5	555.5	788	788	788	788	3.96
Alt. #3	120.5	414.5	588	588	588	588	2.98
Alt. #4	82	282	400	400	400	400	2.03

It should also be noted that the 1976 HAP plans are a particularly poor basis for determining an aggregate subsidized unit mix because:

. They were developed without any resource restraint which, given the higher marginal cost of new units, would result in a new unit bias; and

. The demand for housing was estimated using populations expected to reside in the local area and this significantly overstated demand among all local jurisdictions within an area, further biasing the HAPs toward new construction.

Finally, OMB staff believe HUD can best administer the section 8 program consistent with local priorities by allocating dollar resources (e.g. BA) to local communities and letting them decide the specific mix of units to be achieved. The overall resource level need not assume the same mix local communities ultimately realize. This approach differs significantly from the HUD approach, which first establishes the aggregate resource level by assuming a mix of units based on local HAPS and then allocates the derived new and existing units to the local communities.

Pros and Cons for Alternatives

Alternative #1 (394,000 units, 57/43 mix for new/existing)

Pros

-- Minimizes congressional confrontation.

-- Provides new construction stimulus.

-- Reflects increase from 1977 program level.

Cons

-- Very costly alternative with outlays increasing substantially in outyears.

-- Minimizes families served in 1978 and 1979.

-- Makes it easier for the Congress to use section 8 budget authority for other purposes.

Alternative #2 (394,000 units, all existing)

Pros

-- Maintains requested program increase.

-- Maximum number of families served in 1978 and 1979.

-- Resource limits rather than unit limits would force local communities to make explicit trade-offs between local desires and relative costs of different housing within a feasible budget restraint.

Cons

-- Largest outlay impact over next 5 years.

-- Inconsistent with current or adjusted HAP's, thereby increasing potential congressional confrontation.

-- No direct new construction impact.

Alternative #3 (294,000 units, all existing)

Pros

-- Provides 21 percent unit increase above 1977 section 8 program level.

-- Serves 41 percent more families in 1978 and 1979 than HUD alternative.

-- Encourages local communities to make trade-offs.

-- Five-year cost about $320 million less than HUD recommendation.

Cons

-- Potential congressional conflict.

-- 1978 and 1979 outlays greater than current policy.

-- No direct new construction impact.

Alternative #4 (200,000 units, all existing)

Pros

-- Serves more families in 1978 and 1979 than the HUD recommendation.

-- Lowest 5-year budget impact.

-- Encourages local communities to make trade-offs.

-- Limits the ease with which Congress can reallocate section 8 budget authority to other accounts.

Cons

-- Potential congressional conflict.

-- No direct new construction impact.

-- Reduction from 1977 program level.

HUD Request: Alternative #1. HUD requests this alternative to avoid congressional confrontation, to provide an increase in program level as measured by reserved units, and to provide needed new construction, especially for overcroweded large, poor families and for the elderly.

OMB Recommendation: Alternative #4. OMB sees no need for a new construction program at this time. In addition, this alternative will serve 39,000 more families by 1979 than HUD's recommendation. Finally, OMB believes HUD should allocate budget authority, rather than units, to local communities and allow the local communities to determine the alternate mix of new/existing units within that overall budget authority constraint. In that way, HUD would administer the section 8 program consistent with the preferences of local communities.

SUBISSUE B: Use of Section 8 for FHA Projects

Statement of Issue

Should section 8 authority be earmarked to bail out financially troubled FHA-insured multifamily projects, and how much FHA savings should be shown in the 1978 budget?

Background

Last fall, Secretary Hills appealed the initial Presidential decision to provide for 245,000 units of section 8 in FY 1977 and instead proposed a 400,000-unit level which, she maintained, would permit sizeable outlay reductions in 1976 and 1977. She argued that, by using section 8 authority to prevent default of 110,000 FHA-insured units, outlays from the FHA Fund could be cut $880 million in the 1976-TQ period and $1,061 million in 1977. The average FHA savings per unit of section 8 was assumed to be over $13,100 for the 220,000 units approved in the 1976-1977 period.

During the 1976-TQ period, HUD approved section 8 subsidies for 114,000 units insured by FHA. Congress limited the Secretary's flexibility to use section 8 in this way during 1977. The language of the 1976 Authorization Act requires that Housing Assistance Plan (HAP) distributions be followed "to the maximum extent practicable" in allocating the 1977 program level. The conference report is quite explicit about HUD setting national targets that discourage new construction: "The practice by HUD of establishing national targets for the number of assisted new, rehabilitated, and existing units is inconsistent with local determination of housing mix...The conferees expect that in the future HUD will not discourage the development of new and rehabilitated section 8 projects because market or other conditions make unassisted apartment development unattractive."

HUD has undertaken a major reconnaissance effort to determine how this section 8 authority has been used and what savings have accrued to the FHA Fund from this program. At the current time, the only data available which might indicate the impact of using section 8 authority for FHA projects are that assignments have declined from around 50 projects per month in 1975 to around 25 projects in recent months. HUD and OMB budget projections before the section 8 decision was made did not call for this decline in defaults: a comparison of HUD's 1977 Budget request with actual data on assignments and acquisitions also yields a 25-project-per-month difference.

If all of this decline were due to the use of section 8 in FHA projects, the annual average savings from section 8 would be around $625 million, based on an average claim of over $2 million per project. These estimates of savings from the 1976-TQ section 8 program for FHA projects are discussed later in this paper and are used in the following budget estimates. Since 1977 authority has been limited by legislation, these future savings cannot be assumed to continue unless a legislative proposal for use of section 8 contract authority for FHA projects is enacted.

Alternatives

#1. Propose permanent legislation to set aside 25 percent of the annual section 8 authority for FHA projects.

#2. Propose permanent legislation to set aside 15 percent of the annual section 8 authority for FHA projects (OMB recommendation).

#3. Propose permanent legislation to set aside 10 percent of the annual section 8 authority for FHA projects.

#4. Propose legislation to set a maximum limit of 10 percent on the use of section 8 authority for FHA projects and let communities decide on the actual use (HUD request).

Analysis

Budget Authority/Outlays	1976		1977		1978		1979		1980		1981		1981	
($ in millions)	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Current policy:	1231	1191	1404	1315	1452	1362	1212	1212	1247	1247	1281	1281	1315	1315
Change from current policy:														
Alt. #1--25% set aside		---		---	-337	-337	-337	-337	-337	-337	-337	-337	-337	-337
Alt. #2--15% set aside		---		---	-202	-202	-202	-202	-202	-202	-202	-202	-202	-202
Alt. #3--10% set aside		---		---	-135	-135	-135	-135	-135	-135	-135	-135	-135	-135
Alt. #4--10% set maximum:														
HUD estimate*.........		---		---	(-531)	(-531)	(-531)	(-531)	(-531)	(-531)	(-531)	(-531)	(-531)	(-531)
OMB estimate..........		---		---	---	---	---	---	---	---	---	---	---	---

* HUD estimates that communities will choose to use 55,000 units of existing authority in FHA projects. However, HUD has not included any savings in this FHA Fund estimates or revised their per-unit savings estimates: at their previous estimate of $1.061 million savings for 110,000 units in 1977, savings from these 55,000 units would be $531 million.

FHA Savings from Alternative Uses of Section 8 Authority
(Dollars in millions--units in thousands)

	Set Asides			Maximum Limit	
	Alt. #1	Alt. #2	Alt. #3	Alt. #4	
				HUD Est.	OMB est.
1978 Section 8 authority (as recommended by OMB)..................	6,700	6,700	6,700	42,800	6,700
Set aside for FHA projects (%)........	25	15	10	10	10
Set-aside budget authority............	1,675	1,005	670	4,280	670
Contract authority (15 year term).....	112	67	45	285	45
Units set aside (at $1,815/unit)......	61.5	36.9	24.6	55.0*	---
Savings realized ($5,482 ($652M ÷ 114,000 units) x units set aside)....	337	202	135	(531)*	---

* (See footnote on previous page.)

The alternative set-aside levels correspond to the following actual levels of activity:

- Alt. #1 25 Percent set aside is close to the actual percentage of section 8 units used in FHA projects in the 1976-TQ period (114,000 units/486,000 units).

- Alt. #2 15 Percent set aside is close to the percentage of section 8 budget authority used in FHA projects in the 1976-TQ period ($2.4 billion/$18.1 billion).

- Alt. #3 10 Percent set aside accepts the 10 percent level proposed by the Secretary for a maximum limit but converts it into a set aside.

HUD believes that the per-unit cost differential between the section 8/existing program ($2,415 per unit) and the section 8/loan management program ($1,815 per unit) will cause communities to invest in FHA projects. No other incentive would be built into the program to entice communities to use section 8 authority in FHA.

There is a basic inconsistency in the Secretary's proposals to provide:

- Freedom for local communities to use section 8 authority for their choice of new and existing (including loan management) units as shown in their revised HAPs,

- A limit of 10 percent on loan management units in case communities favor the loan management use of section 8 too much.

HUD staff have indicated that the 10 percent limit was chosen as a signal to the field that HUD officials should not push local communities too hard toward using section 8 in FHA projects. Early informal results from the reconnaissance indicate that HUD staff and even LHA staff fully support this program. The need for this ceiling is unclear since the Federal interest is best served by achieving maximum use of section 8 to prevent FHA assignments and if local authorities choose not to use section 8 for this purpose the ceiling is irrelevant.

Since FHA will pay claims for insured units that default, there is little incentive for local communities to use their section 8 allocations to assist these projects. Projects that have been assigned to HUD or foreclosed into acquired property provide even less incentive for communities to "waste" their section 8 resources. OMB staff believe that HUD has overestimated the potential use of section 8 for projects. The OMB estimates included in the table above assume no units will be used in this way. If no section 8 units are available for FHA loan management, then rent supplement projects would need additional rent supplement authority or defaults would increase. HUD staff have estimated that without section 8 subsidies or new rent supplement authority, up to 50 additional projects per year could be expected to default. These claims would add up to $100 million to HUD's current estimates. This maximum estimate was not included in HUD's request since its budget estimates assume that communities will use discretionary section 8 authority in rent supplement projects, thereby avoiding the $100 million in claims.

We believe a system of set asides is necessary to obtain use of section 8 authority in FHA projects. The pros and cons of set-asides are presented below:

Pros

. Each unit of section 8 authority used to bail out an FHA-insured project is estimated to save almost $5,500 in FHA outlays. Set-asides are the only realistic way to obtain this savings because using section 8 authority for FHA projects does not seem to be in the community's self interest. (HUD maintains that local communities will act to provide these FHA savings.)

. Use of section 8 authority is the most significant tool that the Administration has to reduce the growing inventory of over 300,000 units in assigned and acquired projects. Over 1,200,000 units of insured multifamily housing that have not defaulted would be eligible for this assistance (see attached table).

. Set-asides for FHA-insured projects would reduce budget authority requirements for a given number of section 8 units, since section 8/new requires $4,375 per unit in annual contributions authority for 20 years, and regular existing units require $2,400 for 15 years, compared to loan management at $1,815 for 15 years. Budget authority savings per 100,000 units of loan management will be $877 million versus regular existing units and $6 billion, compared to new units. The relative costs of new, existing, and loan management units would thereby be made an issue in the budget authority requested of the Congress.

. Use of a large set-aside of section 8 authority for FHA projects is feasible as proven by HUD's 1976 program (114,000 units).

. The problem with the rent supplement projects would be taken care of as a high priority use of the set-aside.

Cons

. Congressional intent is to move toward local government priorities as reflected in their HAPs and to restrict use of Executive Branch set-asides, especially for FHA loan management units. This could provoke Congress to eliminate any section 8 for FHA loan management.

. This Administration's major thrust is toward local government decisionmaking and a set-aside policy could be interpreted as inconsistent with this thrust (a set-aside policy also could be argued as consistent with Administration policy by splitting local discretion authority clearly away from a targetted Federal program).

. Using section 8 for FHA subsidized project residents increases horizontal inequity among families with similar income and social characteristics.

. Since the savings from use of section 8 authority for FHA projects have not been accurately identified, a significant outlay adjustment may be premature.

. Additional rent supplement authority could be requested to prevent defaults when this need is identified.

HUD Request: Alternative #3. The Secretary recommends setting a maximum limit of 10 percent on the use of section 8 authority for FHA loan management purposes and letting communities determine actual use. She wants to portray "the numbers in the budget quite clearly as estimates rather than goals to be reached in these areas."

OMB Recommendation: Alternative #2. We recommend proposing a set-aside of 15 percent of section 8 authority for FHA loan management in 1978. Without a set-aside proposal, the use of section for FHA projects will be effectively terminated. Since the Secretary has advertised a plan for use of 1977 authority that does not include FHA loan management, we recommend that she use the maximum amount of carryforward authority that can be used for loan management.

OMB Recommended Savings Estimates:

Based on the 1977 Budget estimate of savings per unit ($13,100), 1978 savings of $356 million could be built into OMB's internal scorekeeping for the recommended alternative #2. The most recent months tend to support a higher estimate than the $5,482 per unit/

25 project estimate used in the analysis. However, an average based on more 1976 data (see attachment) supports the $5,482 per unit estimate as does the TQ shortfall. Having no allowance for FHA savings in OMB's totals would reflect the uncertainty of the estimates. Given the presence of some data to the contrary, we recommend including $200 million of annual FHA savings for the recommended set-aside (alternative #2) in OMB's internal totals and updating these later when HUD's reconnaisance results are available.

Status of Multifamily Insurance Programs, August 1976

(Dollars in Millions and Units in Thousands)

Programs with more than 25,000 units insured	Insurance in Force		Insured Mortgages Current in Payments		Insured Mortgages in Trouble *		Percent in Trouble		Mortgages in Default		Assigned Mortgages		Acquired Property	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Subsidized Mortgages:														
Interest subsidy - Section 236, including RS	397,026	6,659	325,130	5,402	71,896	1,257	18	19	22,568	409	42,794	743	6,534	105
Low- and moderate-income -														
Section 221(d)(3) market rate/RS	91,045	1,132	75,756	936	15,289	196	17	17	3,270	43	9,470	119	2,549	34
Section 221(d)(3) BMIR	127,604	1,884	75,094	1,086	52,510	798	41	42	8,143	136	34,996	525	9,371	137
(Rent Supplement)	(288,016)	(4,597)	(261,941)	(4,130)	(26,075)	(467)	9	10	(17,156)	(329)	N/A	N/A	(8,919)	(138)
Total Subsidized..............	626,696	9,775	484,096	7,477	142,600	2,298	23	24	34,678	599	88,981	1,414	18,941	285
Unsubsidized Mortgages:														
Basic multifamily - Section 207 rental	139,527	1,769	111,392	1,323	28,135	446	20	25	7,765	124	16,259	263	4,111	59
Mobile home - Section 207	37,578	110	18,363	52	19,215	58	51	53	3,719	11	11,117	34	4,379	13
Cooperatives - Section 213	68,500	732	65,172	670	3,328	62	5	9	462	19	2,866	43	---	---
Urban Renewal - Section 220	47,499	838	29,461	514	18,038	324	38	39	2,593	53	13,522	246	1,923	25
Low- and moderate-income - Section 221(d)(4)	169,220	2,338	105,299	1,369	63,921	5,709	38	41	11,533	180	48,539	740	3,849	49
Elderly - Section 231	26,542	328	20,833	262	5,709	66	22	20	164	2	5,406	62	139	2
Nursing homes - Section 232	93,233	817	81,561	708	11,672	109	13	13	2,815	29	6,765	60	2,092	20
War veterans - Section 608	98,160	248	79,213	141	18,947	107	19	43	5,226	15	10,690	62	3,031	30
Armed Services - Section 803	187,408	1,130	186,880	1,128	528	2	---	---	---	---	48	---	480	2
Total Unsubsidized............	925,773	9,599	748,480	7,344	176,655	2,255	19	24	36,023	456	118,641	1,571	21,991	228
Purchase Money Mortgages.......	50,416	411	50,416	411	---	---	---	---	---	---	---	---	---	---
Grand Total, August, 1976......	1,602,885	19,785	1,282,992	15,232	319,893	4,553	23	24	71,339	1,057	258,038	2,984	40,932	512

* Insured mortgages in trouble includes mortgages in default, assigned and acquired.

SUBISSUE C: Fair Market Rents

Background

Section 8 of the U.S. Housing Act of 1937 sets a monthly rent ceiling for low-income housing based on "the fair market rental (FMR) established by the Secretary periodically but not less than annually for existing or newly constructed rental dwelling units of various sizes and types in the market area suitable for acceptance by persons assisted under this section" (emphasis added). The maximum rent cannot exceed 10 percent of the established FMR, except where the Secretary determines special circumstances warrant higher rents, in which case the ceiling is 20 percent of the FMR. The Secretary has considerable latitude in determining FMRs.

Under current HUD procedures, FMRs are established for each market area (defined as an SMSA). For existing units, the FMRs are based on the median rent paid by movers during a base period, adjusted for inflation. FMRs for new construction are based on rents in comparable projects (actually, they are set equal to the rent closest to the 75th percentile in a sample of comparable projects), again adjusted for inflation. FMRs vary by size of units (number of bedrooms) and by type of unit (e.g., garden apartment, high-rise).

Subissue C-1

Statement of Issue

Should the basis for establishing FMRs be changed from the SMSA to individual counties?

Analysis

HUD has not been able to quantify the impact narrower market areas would have on the average FMR in 1977. Its 1978 budget submission reflects FMRs established on the current SMSA basis. It is also unclear what impact the change would have on the total supply of housing available in the SMSA since there would be an increase in the number of units available in the "high cost" submarkets and a decrease in the number of units in the "low cost" markets. If supply in the "low cost" markets is larger and more concentrated around the median rental than it is in the high-cost markets, the total supply of housing in the SMSA eligible under section 8 could be reduced.

Pro

. Separate FMRs for counties would promote greater economic integration by allowing section 8 recipients to move to high-cost areas.

Cons

. Could greatly increase program costs, since recipients would move to higher cost areas in droves, given the attraction of better public services and neighborhoods.

. Horizontal inequities would increase, since participants would get more amenities as well as adequate housing and lower rent-income ratios.

. The program would become more complex to administer, as a result of the increase in the number of FMRs.

HUD Request: Narrow the geographic basis for FMRs.

OMB Recommendation: Maintain FMRs at the SMSA level.

Subissue C-2

Statement of Issue

Should the basis for determining FMRs on existing units be changed?

Alternatives

#1. Continue using the median rent paid by recent movers and allow the Secretary to exceed these levels by 20 percent (HUD request).

#2. Reduce the basis to 80 percent of the rent paid by recent movers (or the 40th percentile) but continue to allow for discretionary increases (OMB recommendation).

#3. Reduce the basis to the 30th percentile but continue to allow discretionary increases.

Analysis

Budget Authority/Outlays ($ in millions)	1976 BA	1976 O	1977 BA	1977 O	1978 BA	1978 O	1979 BA	1979 O	1980 BA	1980 O	1981 BA	1981 O	1982 BA	1982 O
Current policy (Alt. #1 HUD req.).............	29,800	360	9,336	350	40,300	800	42,800	1,575	46,400	2,150	50,500	3,400	54,500	4,700
Change from current policy:														
Alt. #2 (OMB rec.)....	---	---	---	---	-692	-16	-754	-51	-840	-64	-926	-61	-1,009	-67
Alt. #3..............	---	---	---	---	-1,383	-92	-1,515	-101	-1,677	-111	-1,846	-123	-2,021	-135

Although the section 8 program serves families whose income is less than 80 percent of median income and is focused particularly at very low-income families (those with incomes below 50 percent of median income), FMR rates within a market area are established at the median level paid by movers in a base period. While this may increase the supply of housing available to low- and very low-income families, it also provides a "hidden" income transfer to these families by providing better housing than necessary to provide decent shelter.

A recent HUD evaluation concluded that FMRs may be too low because large families are having difficulty securing adequate (four bedroom) rental units. Since there appeared to be no shortage of small units, the differential FMR between small and large units may be inadequate, and this can be corrected directly by increasing the differential rather than the entire schedule.

Alternative #1 - Status Quo

Pros

. There is enormous pressure to raise FMRs; maintaining the status quo will help to resist this pressure.

. FMRs established under the current system provide recipients a greater range of choice.

Cons

. Current FMRs provide a hidden income transfer by offering section 8 tenants not only adequate housing, but as a HUD study found, housing that ranges all the way up to luxury.

. The present system greatly increases program costs.

. Increases horizontal inequity among participants and nonparticipants.

Alternative #2 - Cut the basis for FMRs to the 40th percentile

Pros

. Would reduce program costs significantly.

. Would reduce horizontal inequities between participants and nonparticipants.

. Would reduce the real demand for section 8 assistance.

Cons

. Would prompt a confrontation with Congress that could lead to higher, rather than lower, rent ceilings.

. If successfully implemented, would hinder the program's operations by making it more difficult for participants to find acceptable units.

Alternative #3 - Cut the basis for FMRs to the 30th percentile

Pros and cons are the same as for Alternative #2, but to an even greater extent.

HUD Request: Alternative #1.

OMB Recommendation: Alternative #2.

. There is no way to recapture unneeded budget authority short of deferral, should the estimate of inflation prove to be too high.

. Increases outlays over the planning period.

. Contrary to A-11, which prohibits allowances for anticipated inflation.

Alternative #2 - Assume a 5 percent increase in FMRs per year

Pros

. Would reduce budget authority and outlay estimates associated with a given unit level.

. 5 Percent is consistent with current aggregate inflation forecasts and the behavior of CPI rent index relative to the aggregate index since 1970.

Cons

. Would jeopardize achieving the unit target shown in the budget if inflation exceeds expectations.

. Contrary to A-11.

Alternative #3 - No allowance for inflation

Pros

. Consistent with A-11.

. Would allow a reduction in budget authority and outlays for any given unit level.

Con

. Providing no allowance for inflation would take all credibility away from any unit target set for the program.

HUD Request: Alternative #1.

OMB Recommendation: Alternative #3. A zero inflation rate need not imply unrealistic budget if participants are encouraged to secure units with rents below the 40th percentile.

Subissue C-3

Statement of Issue

What inflation rate should be assumed in developing the budget request?

Alternatives

#1. Assume a 10 percent increase in FMRs per year (HUD request).

#2. Assume a 5 percent increase in FMRs per year.

#3. Assume no inflation beyond current costs (OMB recommendation).

Analysis

Budget Authority/Outlays ($ in millions)	1976 BA	1976 O	1977 BA	1977 O	1978 BA	1978 O	1979 BA	1979 O	1980 BA	1980 O	1981 BA	1981 O	1982 BA	1982 O
Current policy (Alt. #1 HUD req.).............	---	---	9,336	---	40,038	800	44,135	1,575	48,545	2,150	53,375	3,400	58,725	4,700
Change from current policy:														
Alt. #2...............	---	---	---	---	-2,002	-19	-2,207	-39	-2,427	-102	-2,669	-435	-2,936	-734
Alt. #3 (OMB rec.)....	---	---	---	---	-4,003	-38	-4,413	-85	-4,854	-173	-5,337	-510	-5,872	-1,002

Alternative #1 - Assume a 10 percent increase in FMRs per year

Pros

- Provides the greatest margin of safety, thereby increasing the likelihood of achieving the budget target.

- Consistent with past inflation rates for new housing.

Cons

- Neither HUD nor OMB have any basis for projecting FMRs, as the 1976 experience clearly shows. (In 1976, the average rent for new section 8 approvals was $3,464 versus a budget estimate of $3,900).

SUBISSUE D: Section 8 New Construction Contracts Extended to 40 Years

Statement of Issue

Should the contract term for private new construction be extended from 20 to 40 years?

Analysis

Secretary Hills has proposed legislation that would authorize all new section 8 construction contracts for up to 40 years. Currently, only public developers (e.g., State housing authorities) can receive a 40-year subsidy commitment; private projects are limited to 20 years. Secretary Hills feels that the extended term will provide a good incentive for private developers to do more section 8 construction.

Pros

- Would make the program more consistent with mortgage terms, and thus allow more projects to meet underwriting requirements.

Cons

- HUD has not demonstrated that current 20-year contract term has restricted private developers participation; in FY 1976-TQ, private developers received subsidy commitments for 46,000 new units.

- Significantly increases potential government costs in order to provide an incentive of limited value.

	Per Unit Costs	Term Years	Maximum Liability Per Unit
Private/New Construction	3,534	20	70,680
	3,534	35	123,690
	3,534	40	141,360

HUD Request: Extend private developers' new construction contracts to up to 40 years.

OMB Recommendation: Continue section 8 new construction level at 20 years.

#2. ELDERLY HOUSING

Issue Paper
Department of Housing and Urban Development
1978 Budget
Issue # 2: Section 202 Housing for the Elderly and Handicapped

Background

The section 202/Housing for the Elderly or Handicapped Program provides direct loans to private nonprofit sponsors to finance the development of housing and related activities for elderly or handicapped persons. The Housing and Community Development Act of 1974 placed the program off-budget, despite Administration objections. The Administration, to date, has been singularly unsuccessful in controlling or limiting congressional actions to enrich this program.

Subissue A: Continuation of the Program
Subissue B: Budget Status

SUBISSUE A: Continuation of the Program

Statement of Issue

Should the section 202 program be continued and, if so, at what level?

Alternatives

#1. Continue at current $750 million program level (HUD request).

#2. Maintain current loan level, but provide no section 8/new unit financing.

#3. Suspend the program, and substitute a 30,000-unit set-aside in section 8/existing for meeting elderly and handicapped housing needs in FY 1978 and FY 1979 (OMB recommendation).

Analysis

Loan Limitation/Outlays* ($ in millions)	1976 LL	1976 O	1977 LL	1977 O	1978 LL	1978 O	1979 LL	1979 O	1980 LL	1980 O	1981 LL	1981 O	1982 LL	1982 O
Current policy Alt. #1 HUD request	612	-15	731	265	750	738	750	778	750	660	750	608	750	591
Change from current policy:														
Alt. #2	---	---	---	---	---	-8	---	-566	---	-750	---	-727	---	-710
Alt. #3 (OMB recom.)	---	---	---	---	---	-8	-750	-566	-566	-750	-750	-727	-750	-710

* Assumes the program to be off-budget.

HUD and OMB staff agree that there is little programmatic justification for providing subsidized direct loans to nonprofit sponsors to construct new elderly housing.

- The section 202 program has a minimal impact on housing supply, since all units receive section 8/new assistance. HUD estimates that only a handful of the section 202 projects would be undertaken without that additional section 8 assistance.

- Even if all 202 units were net additions to the elderly housing supply, the effect would be small since the 202 program is expected to reserve only 28,100 units in 1977 and 25,600 units in 1978.

- Finally, Federal inducements for this particular group of sponsors are suspect, given evidence from other HUD programs, especially 236, indicating this group is one of the least efficient managers of housing programs.

In terms of providing direct housing assistance for the elderly, the section 8/existing program is far more effective from both a cost and an occupancy time standpoint.

- The average section 8/existing unit approved in 1978 is estimated to cost $2,400 per year whereas new units are expected to cost $4,300 per year plus the 202 subsidy.

- Section 8/existing units are occupied an average 9 months after reservations, whereas section 8/new units take 24-30 months to achieve occupancy.

- HUD studies indicate that about 33 percent of current section 8 recipients are elderly.

Past attempts to control or limit this program have often resulted in congressional actions to increase the program and deepen the advantage to nonprofit sponsors. Given this congressional sensitivity, there is little advantage to nibbling at the program. The pain is apparently the same for any proposed program reduction.

<u>Alternative #1</u> - Current policy ($750 million)

<u>Pros</u>

- Avoids congressional confrontation.

- Shows President's continued support for programs aimed at the elderly.

<u>Con</u>

- Continues program with little positive programmatic justification, but a major impact on Treasury borrowing needs.

Alternative #2 - ($750 million, but separate from section 8)

Pros

- Consistent with OMB recommendation to budget only for existing units under section 8.

- Restrains program indirectly by eliminating section 8/new piggyback subsidy.

- President does not directly terminate elderly housing program.

Cons

- Very likely to produce deeper 202 subsidy.

Alternative #3 - (Terminate program)

Pros

- Offers explicit trade-off between more efficient and less efficient elderly housing programs.

- Eliminates program of questionable merit.

- Substantially reduces Treasury borrowing needs or required outlays if 202 brought back on-budget.

Cons

- Direct congressional confrontation assured.

- Given marginal chance of success, raises argument about unrealistic budgeting.

- Housing offered is not specifically geared to the aged and handicapped, although it could be.

HUD Request: Alternative #1. HUD proposes to leave the program level alone to minimize congressional reaction, since any attempted program adjustments are likely to produce adverse results and thwart the on-budget move as well. Once on-budget, continued budget pressures may encourage program reforms in 1979.

OMB Recommendation: Alternative #3. OMB staff agree with the need to bring the program back on-budget; however, given congressional sensitivity to any change in the status of the 202 program, and given the severe budget outlay impact, OMB recommends that the Administration oppose this inefficient program and offer to "guarantee" some level of support for elderly housing through section 8.

SUBISSUE B: Budget Status

Statement of Issue

Should the section 202 program be brought back on-budget in 1978?

Analysis

Pros

- Provides a more accurate measure of Federal Government fiscal impact.
- Will provide some fiscal discipline by making the program level visible.

Con

- Increases budget outlays, though not Treasury borrowing needs, thereby increasing difficulty of showing a balanced budget in 1979.

Recommendation

HUD and OMB agree that the section 202 program should be brought back on-budget.