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MEETING WITH THE PRESIDENT  
Thursday, November 13, 1975  
Re: Budget  
2:00 p.m.

THE WHITE HOUSE

WASHINGTON

November 13, 1975

MEMORANDUM FOR: JIM CANNON  
FROM: TOD HULLIN  
SUBJECT: HUD Budget Review Session

OMB is presenting the President with four issues regarding the HUD budget for fiscal year 1977:

- (1) What level of new construction should be supported under the Section 8/Lower Income Housing Assistance program?
- (2) Should HUD adopt a policy of restructuring mortgages on subsidized housing projects sponsored by non-profit groups?
- (3) Should rental charges in public housing be increased in order to reduce the need for Federal operating subsidies?
- (4) What should be the funding level for the Comprehensive Planning (701) program in 1977 and 1978?

Attached for your review are brief papers on each of these issues which outline my thoughts and comments. The attached papers are not intended to duplicate the material prepared by OMB which has been done in a reasonably responsible manner.

## SECTION 8/SUBSIDIZED HOUSING

ISSUE: What level of new construction should be supported under the Section 8/Lower Income Housing Assistance program?

BACKGROUND: The Section 8 program authorizes the Federal government to pay a difference between the fair market rent and a portion of that rent (between 15-25% of gross income) affordable by the tenant. It is available for existing, substantially rehabilitated, or new housing. The 1976 budget authorizes Section 8 commitments on 400,000 units.

This is a new program authorized by the Housing and Community Development Act of 1974 which President Ford signed on August 22, 1974. Former Secretary Lynn fought long and hard for this program.

It is a highly complex program and it has only been operational about six months. But in that time it has been plagued with some problems and subject to criticism. HUD is making a conscious effort to work the bugs out as expeditiously as possible.

### COMMENTS:

(1) OMB and HUD are not very far apart on this issue and so it should not present a major problem.

(2) This is our program. We proposed it, we fought for it, and we got it. It is not working as well as we anticipated and it is more expensive than we anticipated. However, it has only been operational for a short period of time and we should not be too quick to condemn it.

(3) In the HUD appropriation bill the Congress mandated the construction of 85,000 new units under the Section 8 program. Under present conditions, HUD does not believe that 85,000 new units can be produced and the Secretary is working on ways to make the new construction aspect of this program more feasible.

(4) In light of the President's recent "235" decision, the OMB proposal is adequate and defensible.

MORTGAGE MODIFICATION  
FOR NONPROFIT SPONSORS

ISSUE: Should HUD adopt a policy of restructuring mortgages on subsidized housing projects sponsored by non-profit groups?

BACKGROUND: HUD is authorized to insure the mortgages of multi-family housing projects which are sponsored by nonprofit groups (churches, charitable organizations, etc.). These projects primarily house low income and elderly families. Recently, an increasing number of these projects have defaulted on their mortgages and an increasing number appear to be facing default. This requires a foreclosure of the mortgage by HUD or an assignment of the mortgage to HUD, either of which is an expensive proposition.

COMMENTS:

(1) OMB candidly admits that their proposal would prompt "intense criticism" from church and poverty groups and probably cause an adverse Congressional response. It is not apparent that the gains from the OMB proposal are worth running the risk.

(2) HUD recognizes that their proposal will require additional outlays at a time when the President is under a considerable pressure to reduce spending.

(3) I believe that we should maintain our present policy of handling hopeless projects on a case-by-case basis.

PUBLIC HOUSING OPERATING SUBSIDIES

ISSUE: Should rental charges in public housing be increased in order to reduce the need for Federal operating subsidies?

BACKGROUND: At the present time HUD pays for all the acquisition and construction costs for public housing and provides operating subsidies of \$475 million a year. Public housing projects are significantly hampered by poor management which increases the demand for additional Federal assistance. HUD has tried to attack this problem through their Performance Funding System Program and their Target Project Program.

COMMENTS:

(1) Operating subsidies have skyrocketed in the past seven years. Poor management contributes heavily to the problem, but the increased costs of utilities, increased costs of services and unrealistically low rents are also major problems.

(2) I do not believe that it is unrealistic for the Federal government to require that 25% of a family's gross income be applied to the rent of a public housing unit. Even with the increased rent, the Federal subsidy will be substantial. I support the OMB position and think it can be defended on programmatic, budget and political grounds.

COMPREHENSIVE PLANNING GRANTS

ISSUE: What should be the funding level for the Comprehensive Planning (701) Program in 1977 and 1978?

BACKGROUND: The 701 program is one of 45 Federal assistance programs in which HUD awards grants for planning activities on a discretionary, case-by-case basis. The program is extremely flexible and can provide support for a wide variety of planning activities.

COMMENTS:

(1) The OMB proposal would require Congressional action and unless they are willing to increase the amount of money in the Community Development Block Grant Program, I don't believe that the Congress will accept their proposal.

(2) Any effort to substantially change the 701 planning program should be included as a part of an overall effort to improve the delivery of Federal planning assistance.

(3) At this point in time, I think the HUD position has more merit. However, I support the OMB concept of folding the 701 program into the Community Development Block Grant Program. This would give planning money to locally elected officials as opposed to the present system which gives the money to government entities that are not directly responsible to the political system.

Good  
ex

Change of Policy