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HOUSING AND URBAN DEVELOPMENT

Comments on HUD's FY 1997 Budget Request

Statement for the Record by Judy A. England-Joseph, Director, Housing and Community Development Issues, Resources, Community, and Economic Development Division

Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to comment on the Department of Housing and Urban Development's (HUD) fiscal year 1997 budget request. When we appeared before the House Appropriations Committee on March 27, 1996,[1] we noted that for the foreseeable future, HUD's programs would be at high risk because of their vulnerability to waste, fraud, and abuse and that limited progress had been made to address HUD's the programmatic and budget problems. We also said that although the Congress and HUD had made a start at reexamining HUD's policies on housing and community development, reaching a consensus would take time and that few of HUD's proposals for reinventing itself had been adopted. Many of our observations on this year's proposed budget were reflected in our March testimony, and today we raise several new concerns. This information is based on our past work and on several ongoing assignments for the Congress (see appendix I).

Our statement today will discuss (1) HUD's multi-family reengineering cost estimates, (2) the proposed bonus pools for high performing participants in four of HUD's six proposed block grants to consolidate existing programs, (3) and HUD's progress in addressing the management deficiencies we described in our high-risk report.[2]

In summary:

- HUD's estimates of how multifamily portfolio reengineering will affect its budget in fiscal year 1997 and over the next 6 years may not be reliable. The uncertainty stems in part from HUD's use of "best guesses" to develop some estimates rather than basing them on current, project-specific data. However, information that HUD recently obtained from an Ernst & Young study of the multifamily portfolio should help address this weakness. Furthermore, HUD's assumptions about how quickly it will be able to restructure projects with high subsidy costs appear optimistic and could be causing HUD to understate its need for appropriations to assist low-income renters.
- HUD's proposal to provide $845 million in performance bonuses to grantees at the close of fiscal year 1997 could be premature. Although establishing performance measures could lead to greater program accountability, HUD has not yet undertaken the time-consuming effort to fully develop

[1]Housing and Urban Development: Limited Progress Made on HUD Reforms (GAO/T-RCED-96-112, Mar. 27, 1996).

[2]High-Risk Series: Department of Housing and Urban Development (GAO/HR-95-11, Feb. 1995).

appropriate measures, the key details for implementation, or information systems adequate to support performance measurement systems. Not only are these elements necessary to a fair allocation of bonuses to grantees, but grantees need to know them before the assessment period begins. Therefore, we believe that HUD will not be ready to award performance bonuses next year.

- As we first reported in January 1994 and several times since then, four long-standing, Department-wide management deficiencies—weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems—led to our designating HUD as a high-risk area. To address these problems, HUD has proposed several initiatives in its Departmentwide reinvention document called Blueprint II, and we believe that HUD has taken steps in the right direction by requesting funding in its fiscal year 1997 budget to implement several of these initiatives. Nevertheless, because the problems are longstanding and complex, the Department likely will remain in high-risk status for some time to come.

HUD's FY 1997 Budget and Programs

Established in 1965, HUD is the principal federal agency responsible for the programs dealing with housing and community development and fair housing opportunities. Among other things, HUD's programs provide (1) mortgage insurance to help families become homeowners and to help provide affordable multifamily rental housing for low- and moderate-income families, (2) rental subsidies for lower-income families and individuals, and (3) grants and loans to states and communities for community development and neighborhood revitalization activities.

HUD's fiscal year 1997 budget proposal requests about $22 billion in discretionary budget authority and plans about $33 billion in discretionary outlays. Compared with HUD's fiscal year 1996 appropriation, this request represents about a 7-percent increase in budget authority and 10 percent increase in outlays. HUD believes that this increase in outlays between fiscal years 1996 and 1997 is somewhat misleading. For example, 1996 outlays were unusually low because HUD expended $1.2 billion—which normally would have been disbursed early in fiscal year 1996—in late fiscal year 1995 because of the government shutdown. In addition, reforms in the mortgage assignment program generated a significant one-time savings of over $1 billion in fiscal year 1996 (under credit reform as scored by the Congressional Budget Office).

HUD's March 1995 blueprint, HUD Reinvention: From Blueprint to Action, proposed to merge 60 of its 240 separate programs into three performance-based funds that would be allocated directly to the states and localities. HUD's objectives were to provide communities with greater flexibility and instill a level of accountability in its programs through the use of performance measures and a series of rewards and incentives. As of March of this year, few of the proposals in this reinvention document have been adopted. HUD's second reinvention proposal, Renewing America's Communities from the Ground Up: The Plan to Continue the Transformation of HUD, also known as Blueprint II, would supersede the first proposal but continue the move toward accountability by fiscal year 1998 by (1) consolidating over 20 community development programs into three performance funds where high-performing grant recipients would be awarded bonuses, (2) replacing 15 separate public housing programs with two performance funds, and (3) consolidating the 14 existing voucher and certificate funds. Appendix II summarizes HUD's plans to fund the proposals in Blueprint II through its fiscal year 1997 budget request.

Updated Data May Assist in Evaluating HUD's Multifamily Reengineering Cost Estimates

HUD's fiscal year 1997 budget request discusses how a planned, major restructuring of the multifamily housing program is likely to affect its budget over the next 6 years and beyond. The restructuring is aimed at addressing serious and longstanding problems affecting properties with HUD-insured mortgages that also receive rental subsidies tied to units in the properties (project-based assistance). HUD deserves credit for attempting to address these complex problems. However, HUD's assumptions about its ability to quickly restructure properties with high subsidy costs appear overly optimistic and could be responsible for HUD underestimating its request for rental assistance for low-income families.

According to HUD's latest data, 8,636 properties with about 859,000 apartments would be subject to the restructuring proposal; the unpaid loan balances for these properties total about $17. 8 billion. In many cases, HUD pays higher amounts to subsidize properties than are needed to provide the households living in them with decent, affordable housing. In other cases, rents set by HUD are lower than required to maintain the properties' physical condition, contributing to poor living conditions for families with low incomes. Initially termed "mark to market" in last year's budget request, and now referred to as "multifamily portfolio reengineering," the goal and general framework of HUD's proposal remain the same: eliminate excess subsidy costs and improve the poor physical condition of some of the properties by relying primarily on market forces.

Specifically, for properties with mortgages insured by FHA that also receive project-based assistance, HUD has been proposing to let the market set the property rents to market levels and reduce mortgage debt if necessary to permit a positive cash flow.[3] In addition, HUD has proposed replacing project-based rental subsidies with portable tenant-based subsidies, thereby requiring the properties to compete in the marketplace for residents. While maintaining this general framework, HUD made several changes to its proposal this year. For example, under the initial proposal all rents would have been reset to market levels whether the market rents were above or below the subsidized rents. The current proposal gives priority attention initially to properties with subsidized rents above market. In addition, HUD plans to let state and local governments decide whether to continue with project-based rent subsidies after mortgages are restructured or to switch to tenant-based assistance. HUD has also indicated that it will allow owners to apply for FHA insurance on the new, restructured mortgage loans, whereas last year the proposal expressly disallowed FHA insurance on restructured loans.

We are currently evaluating a study by Ernst & Young LLP released on May 2, 1996, that was designed to provide the Department with current information on HUD's multifamily portfolio. This information could form the basis for the improvement of key assumptions needed to estimate the net savings or costs associated with the reengineering proposal. In this regard, HUD's contract with Ernst & Young LLP requires that the firm update HUD's information on (1) market rents versus the project-based rents that the agency subsidizes and (2) the physical condition of the properties.[4] These two variables strongly influence whether a property can operate at market rents without debt reduction or what amount of debt reduction is needed to cover the property's expenses. Having good data on these variables will allow FHA to better develop claims estimates which will be based on the amount of debt write-down. In addition, the rent data are integral to estimating the change in subsidy costs if the project-based rents are replaced with market rents and the residents receive tenant-based assistance. HUD also tasked Ernst & Young with developing a financial model that would show the likely result of reengineering the portfolio and identify the related subsidy costs and claims costs.

[3]Debt restructure amounts will likely be reflected as claims costs in the Federal Housing Administration General Insurance and Special Risk Insurance Accounts.

[4]The study is based on a national sample of properties with both insurance and project-based assistance. The sample was designed to meet a 90 percent confidence level, with a plus or minus 10 percent relative precision for the overall population.

The results of the Ernst & Young study were not available when the fiscal year 1997 budget was being developed. Because HUD lacked the project-specific data contained in the Ernst & Young study, HUD used assumptions in some cases that represent the Department's "best guess" as to outcome. These assumptions can affect the budgetary savings HUD expects to result from reengineering the portfolio. Ernst & Young's May 2, 1996, report presents information on projects that are expected to be affected by this reengineering. While the report did not directly discuss subsidy and claims costs, we are currently reviewing the results of this study and its cost implications. We plan to issue our report on the Ernst & Young study this summer.

On the basis of our ongoing work, we believe that some of the assumptions HUD used may overstate the projected savings associated with reengineering the portfolio. We cannot, however, determine the extent of that overstatement at this time. One of HUD's assumptions is that a substantial number of mortgages with excess subsidy costs will be restructured well ahead of the dates that their rental assistance contracts expire. Although the extent to which HUD will be able to accomplish this remains unclear, this assumption appears optimistic and HUD's budget request may understate its need for funding to renew section 8 rental assistance contracts for fiscal year 1997 and beyond.

HUD Needs More Time to Establish a Program of Performance Bonuses

In its fiscal year 1997 budget, HUD requested $845 million in bonus funding for high-performing grantees in four of its six new block grants. HUD calls the block grants "performance funds." HUD believes that these grants will provide communities with greater flexibility to design local solutions to local problems. HUD plans to competitively award bonuses to grantees who exceed the established performance measures and who submit project proposals. (App. III summarizes the details of the proposed bonus pools.)

We generally support performance measurement as a method of building accountability into block grants because it would allow grantees to achieve objectives while also vesting them with responsibility for their choices. Moreover, HUD's development of block grants and performance measures would be consistent with the underlying principles of the Government Performance and Results Act and recommendations for program consolidation made by the National Performance Review. However, the characteristics of the block grants themselves—their program breadth and the flexibility allowed the grantees—will greatly complicate and add significant time to HUD's development of uniform performance measures. HUD is still in the early stages of developing such measures, however, and without them grantees will have difficulty understanding HUD's objectives and performance measurement process. Moreover, because of inadequate information systems to support performance measurement, we question whether HUD's request for bonus funding can be effectively used during fiscal year 1997.

Implementing Performance Funds Will Be Complicated and Time-Consuming

Some features inherent to block grants will complicate the implementation of a performance measurement system in fiscal year 1997. These complications would result in extending beyond fiscal year 1997 the time HUD needs to develop adequate measures. We have reported in the past, for instance, that the flexibility and wide latitude allowed grantees make common and comparative measurement very difficult. HUD will need to collaborate with the states to develop performance measures and establish reporting requirements. These entities' interests could vary markedly because HUD would be looking to meet national objectives, while the states are trying to meet local needs. Not only do the federal and state interests differ, but it will take time for both to develop data collection systems and reporting capacities once the initial decisions are made.

In addition, measurement is complicated because all observed outcomes cannot be assumed to result from the programs and activities under scrutiny. Some outcomes, such as job creation, will be affected by factors outside of the control of program participants, while other desired outcomes, such as enhanced quality of life for residents, may not be quantifiable. Moreover, our work on block grants at other federal agencies has shown that many of these agencies lack the ability to track progress, evaluate results, and use performance data to improve their agencies' effectiveness.[5] For example, HUD's Inspector General (IG) recently found that HUD is just beginning to develop a Department-wide strategic plan, the key underpinning and starting point for the process of program goal-setting and performance measurement that the Government Performance and Results Act seeks to establish throughout the federal government.[6]

[5]For a more complete discussion of accountability with block grants see Block Grants: Issues in Designing Accountability Provisions (GAO/AIMD-95-226, Sept. 1, 1995).

[6]Under this act, no later than September 30, 1997, federal agencies must submit strategic plans covering a period of at least 5 years to the Office of Management and Budget which, as part of its effort to link the act and the budget process, is requiring agencies to submit parts of their strategic plans by June 7, 1996.

Program performance information comes from sound, well-run information systems that accurately and reliably track actual performance against the standards or benchmarks.[7] Our work has shown, however, that HUD's information systems may not be adequate to support the implementation of the four bonus pools. For example, HUD is proposing a $500 million bonus fund as part of its public housing capital fund. As a requirement for eligibility, housing authorities would have to have earned high scores in the Public Housing Management Assessment Program (PHMAP) and have undertaken substantive efforts to link residents with education and job training.[8] However, HUD generally does not confirm the scores of high scoring housing authorities—many of the data to support the scores are self-reported—and generally accepts the scores as accurate. Our analysis, as well as that of the HUD IG and others, has cast doubt on the accuracy of PHMAP scores for some housing authorities.[9] Three major public housing industry associations also share concerns about PHMAP's use as a tool for awarding bonuses. And finally, HUD itself recently acknowledged that PHMAP scores should not be considered the sole measure of a public housing authority's performance, noting that circumstances can exist in which the best decision a housing authority can make is not always the one that yields the highest PHMAP score in the short term.[10] We believe, therefore, that PHMAP—as it is currently implemented—should not be used as a basis for awarding bonuses to public housing authorities.

HUD has said that it intends to draw on its Empowerment Zone/Enterprise Community (EZ/EC) experience with benchmarking to move toward performance-based funding for all HUD programs. However, HUD officials said that developing benchmarks for the first round of EZ/EC grants was a difficult task and they recognize that HUD could have done a better job of explaining the process of developing benchmarks to communities.

Given this difficulty and the complications mentioned earlier, we are concerned that HUD is still in the midst of developing its bonus program

[7]The EZ/EC program defines benchmarks as the long-term desired outcome by which progress and achievement are measured. Under this definition, its "benchmarks" are similar to strategic goals.

[8]Under the assessment program, a score of less than 60 on a 100-point scale earns a housing authority the performance classification of "troubled"; a score of from 60 to 90 earns the housing authority the classification of "standard performer"; and a score over 90 earns the housing authority the classification of "high performer."

[9]Housing and Urban Development: Public and Assisted Housing Reform (GAO/RCED-96-25, Oct. 13, 1995).

[10]"Office of the Assistant Secretary for Public and Indian Housing; Public Housing Management Assessment Program,"Federal Register, Vol. 61, No. 88, May 6, 1996, p. 20358.

and measures for its performance funds. In its fiscal year 1997 budget, the Department is requesting $11 million for its Office of Policy Development and Research to continue developing quantifiable measures for each major program, a process for setting benchmarks with grantees, and improvements in how the Department uses information on program performance. Because this development is ongoing, the measures and the processes will not be in place and known to the grantees before HUD uses them to award bonuses with fiscal year 1997 funds.

HUD officials believe that bonus funding needs to be offered during fiscal year 1997 to encourage the states and localities to seek higher performance and that the details will be worked out as the program is implemented. We believe that timing is critical in this matter. For the performance bonuses to have equity and merit, HUD needs to be able to specify prior to the year over which performance is measured what results and outcomes will be rewarded and how they will be measured.

HUD'S Budget Proposes Further Action to Address Management Deficiencies

As we have reported,[11] four long-standing, Department-wide management deficiencies led to our designation of HUD as a high-risk area in January 1994.[12] These deficiencies were weak internal controls, an ineffective organizational structure, an insufficient mix of staff with the proper skills, and inadequate information and financial management systems. In February 1995, we reported that HUD's top management had begun to focus attention on overhauling the Department's operations to correct these management deficiencies.[13] In that report, we outlined actions that the agency needed to take to reduce the risk of waste, fraud, and abuse.

In reviewing the proposed 1997 budget, we found budgetary support for the implementation of several of these recommendations. First, we recommended consolidating programs to give the communities greater flexibility in applying for funds and reducing administrative burden. The 1997 budget proposes the consolidation of many individual programs, either now or in the near future, into block grant programs to increase participants' flexibility. HUD is beginning to develop performance measures for many programs to assess the participants' progress. Second, we

[11] Housing and Urban Development: Limited Progress Made on HUD Reforms (GAO/T-RCED-96-112, Mar. 27, 1996).

[12] Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T—OGC-94-1, Jan. 27, 1994).

[13] High-Risk Series: Department of Housing and Urban Development (GAO/HR-95-11, Feb. 1995).

recommended that HUD be authorized to use more innovative initiatives to leverage private investment in community development and affordable housing. Several HUD programs will now or in the future involve mechanisms such as grant proposals or loan programs that will require either participation or investment by private organizations. In addition, FHA proposes creating new mortgage products that would expand homeownership and that would share risk with other entities.

Third, we recommended that HUD continue to strengthen and coordinate its long-range planning. The budget proposal describes new investments to upgrade and expand its computer systems to specifically support implementation of Blueprint II. HUD anticipates that the proposed investments will improve efficiency and reduce operating costs.

However, HUD's budget proposes several new, specialized initiatives that seem to run counter to the agency's consolidation efforts to, as described in Blueprint II, "sweep away the clutter of separate application procedures, rules and regulations that has built up at HUD over the past 30 years." For example, HUD is requesting $290 million for its Housing Certificate Fund to assist several groups of people needing preferred housing. These programs include the Welfare-to-Work initiative and housing for homeless mothers with children. However, this funding request is inconsistent with Blueprint II, in which HUD urges the Congress to do away with the statutes that require such preferences.

Although the Department deserves credit for its continuing resolve in addressing its long-standing management deficiencies, HUD's recently initiated actions are far from reaching fruition, and the agency's problems continue. In addition, specialized programs are beginning to reappear, and they may undermine the major restructuring of the agency, reduce efficiency, and increase administrative burdens. Therefore, we believe that both now and for the foreseeable future, the agency's programs will continue to be high-risk in terms of their vulnerability to waste.

Conclusions

Our statement today discussed several issues that will affect HUD's programs and their need for appropriations. We identified new issues and highlighted changes in other issues on which we have previously testified. By continuing to focus on improving its internal management and coming to closure on how and when it will use the market to eliminate excess subsidy costs and improve the poor physical conditions of its assisted multifamily housing, HUD will be better able to use additional appropriations and implement new policy. Although HUD has recognized many of its management deficiencies and has budgeted funds to address them, we see this as a long-term effort that will continue into the foreseeable future.

In connection with the proposed bonus pools, the lack of adequate performance measures and associated information systems leads us to question the basis for awarding additional funding at this time. While HUD officials believe that the details of awarding bonuses will be worked out as the program is implemented, we believe that they are overly optimistic, given the magnitude of the bonus pools and the complexity of developing appropriate performance measures.

Matter for Congressional Consideration

We recommend that the Congress consider not appropriating the $845 million for HUD's proposed bonus pool funding until the Department develops adequate performance measures and supporting information systems to ensure that these funds are used effectively.

Selected GAO Products

Housing and Urban Development: Limited Progress Made on HUD Reforms (GAO/T-RCED-96-112, Mar. 27, 1996).

FHA Hospital Mortgage Insurance Program: Health Care Trends and Portfolio Concentration Could Affect Program Stability (GAO/HEHS-96-29, Feb. 27, 1996).

GPRA Performance Reports (GAO/GGD-96-66R, Feb. 14, 1996).

Homeownership: Mixed Results and High Costs Raise Concerns About HUD's Mortgage Assignment Program (GAO/RCED-96-2, Oct. 18, 1995).

Multifamily Housing: Issues and Options to Consider in Revising HUD's Low-Income Housing Preservation Program (GAO/T-RCED-96-29, Oct. 17, 1995).

Housing and Urban Development: Public and Assisted Housing Reform (GAO/T-RCED-96-25, Oct. 13, 1995).

Block Grants: Issues in Designing Accountability Provisions (GAO/AIMD-95-226, Sept. 1, 1995).

Property Disposition: Information on HUD's Acquisition and Disposition of Single-Family Properties (GAO/RCED-95-144FS, July 24, 1995).

Housing and Urban Development: HUD's Reinvention Blueprint Raises Budget Issues and Opportunities (GAO/T-RCED-95-196, July 13, 1995).

Public Housing: Converting to Housing Certificates Raises Major Questions About Cost (GAO/RCED-95-195, June 20, 1995).

Government Restructuring: Identifying Potential Duplication in Federal Missions and Approaches (GAO/T-AIMD-95-161, June 7, 1995).

HUD Management: FHA's Multifamily Loan Loss Reserves and Default Prevention Efforts (GAO/RCED/AIMD-95-100, June 5, 1995).

Program Consolidation: Budgetary Implications and Other Issues (GAO/T-AIMD-95-145, May 23, 1995).

Government Reorganization: Issues and Principles (GAO/T-GGD/AIMD-95-166, May 17, 1995).

Managing for Results: Steps for Strengthening Federal Management (GAO/T-GGD/AIMD-95-158, May 9, 1995).

Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/HEHS-94-88, Mar.2, 1994).

Multifamily Housing: Better Direction and Oversight by HUD Needed for Properties Sold With Rent Restrictions (GAO/RCED-95-72, Mar. 22, 1995).

Block Grants: Characteristics, Experience, and Lessons Learned(GAO/HEHS-95-74, Feb. 9, 1995).

High-Risk Series: Department of Housing and Urban Development (GAO/HR-95-11, Feb. 1995).

Program Evaluation: Improving the Flow of Information to the Congress (GAO/PEMD-95-1, Jan. 30, 1995).

Housing and Urban Development: Major Management and Budget Issues (GAO/T-RCED-95-86, Jan. 19, 1995, and GAO/T-RCED-95-89, Jan. 24, 1995).

Federally Assisted Housing: Expanding HUD's Options for Dealing With Physically Distressed Properties (GAO/T-RCED-95-38, Oct. 6, 1994).

Rural Development: Patchwork of Federal Programs Needs to Be Reappraised (GAO/RCED-94-165, July 28, 1994).

Federally Assisted Housing: Condition of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standards (GAO/T-RCED-94-273, July 26, 1994, and Video, GAO/RCED-94-01VR).

Public Housing: Information on Backlogged Modernization Funds (GAO/RCED-94-217FS, July 15, 1994).

Homelessness: McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution (GAO/RCED-94-37, May 31, 1994).

Summary of Major Proposals and Budget Requests

	Blueprint II	FY 1997 Budget Request
Community Development Block Grants Fund (CDBG)[a]	Grantees will use their formula funds for the present wide range of activities eligible under CDBG, but two new features added—performance measures and benchmarks, and a bonus pool. The bonus pool will be devoted exclusively to job creation and economic revitalization efforts.	The budget proposes $4.6 billion for the CDBG fund in 1997. In addition, $300 million is requested for a second round of Empowerment Zone/Enterprise Communities grants ($200 million) and a competitive Economic Development Challenge Grant ($100 million) for high-performing jurisdictions.
HOME Fund[b]	Grantees will use their formula funds to expand the supply of affordable housing. The fund will require grant recipients to set their own performance measures and benchmarks. Ten percent of the fund will be set aside as a bonus pool to create large tracts of homeownership in communities.	The budget proposes a total of $1.55 billion for HOME in 1997, including $1.4 billion for the HOME Fund and $135 million for the HOME Fund Challenge Grant for Homeownership Zones. The Budget also proposes to use $15 million of funds provided for the HOME Fund for Housing Counseling.
Homeless Assistance Fund (HAF)[c]	The HAF will allow grantees to shape a comprehensive, flexible, coordinated “continuum of care” approach to solving rather than institutionalizing homelessness. Ten percent of the fund will be set aside as a bonus pool.	The budget proposes $1.12 billion for the HAF in 1997. Of this total, $1.01 billion will be for a consolidated needs-based homeless assistance program, and the remaining $110 million will be for the Homeless/Innovations Challenge Grant.
Public Housing Operating Fund[d]	HUD will re-propose consolidating several programs (i.e., drug elimination grant, service coordinators) into one Operating Fund by FY 1998. All existing eligible uses under these funds, plus expanded anti-crime activities, will be permitted under the Operating Fund.	The budget proposes $2.9 billion for the Operating Fund, an increase of $100 million over the anticipated $2.8 billion for fiscal year 1996.
Public Housing Capital Fund[e]	HUD will re-propose consolidating a series of separate programs into one Capital Fund by FY 1998. This new Fund will largely be modeled after the current modernization program. Eligible activities will include those currently eligible under modernization programs, under programs for distressed public housing developments, and under the development and Family Investment Center Programs. HUD will set aside 10 percent of the Capital Fund as a bonus pool. HUD plans to jump start the Campus of Learners initiatives in fiscal year 1996 by requiring all applications for redevelopment under the public housing capital programs to build in educational, technological, and job linkages. PHA’s will need to build viable partnerships with local educational and job placement institutions to be eligible for funding.	The budget proposes an appropriation of $3.2 billion for the Capital Fund in 1997. Two-hundred million will be made available for Indian housing construction. The budget assumes that $500 million will be made available in a separate account for a Capital Bonus Fund. The budget does not allocate a specific dollar amount to be used for the Campus of Learners initiative. However, PHA’s are encourage to use capital funds to advance this endeavor.

(continued)

	Blueprint II	FY 1997 Budget Request
Housing Certificate Fund[f]	HUD will re-propose consolidating the existing voucher and certificate funds into one performance-based Certificate Fund. The Certificate Fund will be HUD's principal tool for addressing what HUD considers the primary source of severe housing problems in the nation: lagging household incomes and high housing costs.	The budget is requesting an appropriation of $290 million for fiscal year 1997 for the Certificate Fund for 50,000 incremental units, of which 30,000 units will be used to help families make a transition to work (25,000 units) and help homeless mothers with children obtain housing (5,000 units). The additional 20,000 units will be used for tenant protection to support families in FHA-insured assisted housing projects directly affected by prepayment, disposition or restructuring.

[a]The Community Development Block Grant Fund will comprise the CDBG and Economic Development Challenge Grant.

[b]The HOME Fund comprises the Home Investment Partnership Program (HOME), and the HOME Fund Challenge Grant.

[c]The Homeless Assistance Fund will consolidate HUD's six McKinney homeless assistance programs-Shelter Plus Care, Supportive Housing, Emergency Shelter Grants, Section 8 Moderate Rehabilitation (Single Room Occupancy), Rural Homeless Grants, and Safe Havens, as well as the Innovative Homeless Initiatives Demonstration Program. It will also include the Homeless/Innovations Challenge Grant.

[d]The Public Housing Operating Fund will consolidate the Public and Indian Housing Operating Subsidies.

[e]The Public Housing Capital Fund will consolidate the Public Housing Modernization, Public and Indian Housing Development, Major Reconstruction of Obsolete Public Housing (MROP) Projects, amendments, lease adjustments, and Family Investment Centers.

[f]The Housing Certificate Fund consolidates the Section 8 Certificates, Section 8 vouchers, Section 8 Contract Renewals, Section 8 Family Unification, Section 8 for Persons with Disabilities, Section 8 for Persons with AIDS, Section 8 for Homeless, Section 8 Opt-Outs, Section 8 Counseling, Section 8 Pension Fund Certificates, Section 8 Veterans Affairs Supportive Housing, Section 8 Headquarters, Reserve, Lease Adjustments, and Family Self-Sufficiency Coordinators programs.

Proposed Requests for and Basis for Awards in HUD's Bonus Pools[a]

Fund/ account	Request (total)	Bonus fund title	Bonus fund	Basis for award	Allocation and allowable uses for bonus funds
Public Housing Capital Fund	$3.2 billion	Capital Bonus Fund	$500 million	Public Housing Authorities (PHAs) need to have scores of 90 or higher under Public Housing Management Assessment Program (PHMAP) and undertaken substantive efforts to link residents with educational, self-sufficiency intitiatives, or "Campus of Learners" activity.	The bonus fund will be split among elegible PHAs based on the Caital Fund formula, and bonus funds may be used for any uses elegible under the Capital Fund.
CDBG Fund	$4.9 billion	Economic Development Challenge Grant	$100 million	Any CDBG grantee that meets program requirements, meets or exceeds performance measures and benchmarks included in its Consolidated Plan, and demonstrates that it has expended grant funds on a timely basis. Awards given on a competitive basis to high performing jurisdictions that propose innovative economic revitalization and job creation strategies using a combination of their own resources, private capital, and federal program incentives.	Funds are to address brownfields, generate economic revitalization in distressed communities, link people in these communities to jobs.
HOME Fund	$1.55 billion	HOME Fund Challenge Grant	$135 million	Bonus funding is a "challenge grant" awarded on a competitive basis to high-performing jurisdiction that propose creative, cost-effective homeownership strategies using a combination of their own resources, private capital, and federal program incentives.	Funds will be used to create Homeownership Zones to support state/local efforts to develop homeownership opportunities in targeted areas. Families earning up to 115 percent of the median income could be assisted.
Homeless Assistance Fund	$1.12 billion	Homeless/ Innovations Challenge Fund	$110 million	Competitive basis to high-performing jurisdictions that address national priorities such as homeless persons with multiple diagnoses, particularly mental illness and/or drug/alcohol addictions Jurisdications need to propose creative strategies using a combination of their own resources, private capital, and federal program.	Bonus funding is to address the stated national priorities.

[a]Congressional Justification for 1997 Estimates, HUD, Part 1, April 1996.

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Penalty for Private Use $300

Address Correction Requested