

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT YEAR 2000 BUDGET:

**“Opening Doors for More Americans:
Leading Communities into the Next Century”**

BUDGET ANALYSIS, POLICY CRITIQUE AND PROPOSED RECCOMENDATIONS

**Prepared for Dr. Gene Stowers in partial fulfillment for a grade in PA750: Public
Sector Budgeting, Master’s of Public Administration at
San Francisco State University.**

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Wednesday May 19, 1999**

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Wednesday May 19, 1999

RE: 1999 – 2000 HUD Budget

Dear President and Members of Congress:

The Secretary of HUD has prepared and transmitted the proposed budget for FY2000. This proposed budget takes into consideration policy recommendations from Congress, the President and staff of HUD.

HUD's Mission

Based on these recommendations and HUD's mission to fight for fair housing, increase affordable housing and ownership, reduce homelessness, promote jobs and economic opportunity, empower people and communities and restore public trust, I feel that this budget reflects this mission and goals to achieve them.

HUD's Goals

HUD's specific goals are to develop new markets through empowerment zones and community block grants; affordable housing for low-income, seniors, homeless, and people with disabilities and with AIDS/HIV; a one America that strives for racial integration through fair housing laws; a better quality of life through regional integration and economic development; and lifelong security for seniors.

Budget Recommendations

To achieve HUD's mission and goals I recommend for the FY2000 budget expand affordable housing programs, renew the expiring Section 8 rental assistance program and increase tax credit allocations; expand home loan programs and guarantees; expand funding for Empowerment Zones/Block Grants; expand HOPWA (AIDS) and HUD 202 Programs (Seniors); expand fair housing assistance and Welfare-to-Work Programs; and expand Abandon Buildings (Inner City), Lead Reduction and Brownfields (Toxic Clean up) Programs.

Overall Budget Expenditures

To do this HUD recommends expanding the budget by \$1.1 billion to \$28.3 billion for FY2000, or an annual increase of 4%. The Department of Community Planning and Development would receive an additional \$125 million, or a 2% increase; the Department of Public and Indian Housing would receive an additional \$926 million, or a 5% increase; the Department of Housing Programs would receive an additional \$78 million, or a 5% increase; the Department of Policy Development and Research would receive an additional \$2 million, or a 4% increase; the Department of Fair Housing & Equal Opportunity would receive an additional \$7 million, or a 18% increase; and the Office of Lead-Based Paint and Poisson Prevention’s budget would remain at 1999 levels.

Based on future economic and demographic trends, policy goals and the reality of housing markets and conditions in the U.S., I feel that this budget reflects the will and priorities of the people of this nation.

I respectfully submit this budget for your review and acceptance.

Sincerely,

Andrew Cuomo
Secretary of the Department of Housing and Urban Development

Larry Souza
Assistant Secretary of the Department of Housing and Urban Development

INTEGRATIVE PERSPECTIVE PAPER: BUREAUCRACY AND ADMINISTRATION THEORY

BUDGET JUSTIFICATIONS

Economic and Demographic Assumptions

Economic

Underlying fundamentals for the national economy look considerably healthy for 1999, given strong economic indicators for the fourth quarter of 1998. Although the economy is expected to slow somewhat, there is no real sign of recession until 2001. For 1999, Gross Domestic Product (GDP) is projected to grow from 2.7% to 3.2%, compared to 3.9% for both 1998 and 1997. For 1999, job growth is projected to remain healthy at 2.0%, unemployment is projected to remain below 5%, and inflation is projected to run from 1.5% to 2.0%. Continued economic growth indicates high levels of demand for housing in the foreseeable future.

There are no real signs that the economy's recent performance is becoming unsustainable, even after eight years of constant growth and the external economic and capital market risks in Southeast Asia, South America and Europe.

Exports are expected to recover somewhat in 1999 as Asia and Latin America economies stabilize. Imports are expected to surge as foreign countries import their way out of their economic slump. Business investment spending should pickup as corporate profits improve and lower costs of capital are achieved from the bull market in stocks. Consumers continue to lead this recovery with high confidence and rising incomes.

In 1999, due to the Federal Reserve's concern about overheating the economy, Japan's liquidation of U.S. government securities to prop up their insolvent banking system, and higher inflation, interest rates are projected to remain higher than those seen in prior years. A relatively strong dollar and desperate foreign producers continue to put downward pressure on wholesale and retail prices. Lower commodity prices pose a downside risk to the U.S. labor market. However, this risk is mitigated by low unemployment rates.

The real risk for the U.S. economy is inflation and higher interest rates as Asia starts to recover and domestic unemployment rates remain low.

Although the U.S. economy remains healthy, there are demographic shifts occurring that will continue to put pressure on home prices and affordability, particularly in the West. As home prices grow further out of reach for most Americans, HUD's housing policy and increased budget for 1999 and 2000 should help elevate some of the housing supply pressures.

Demographic

Demographic trends in the United States are on the verge of changing dramatically. Economists are identifying these changes and developing housing policy strategies to accommodate housing needs of the future.

The most significant demographic trends over the next 10 years will be 1) the aging of the baby boomers and 2) the emergence of the echo boomers, children of the baby boomers.

Aging baby boomers will have a significant impact on future demand for housing as they move into their peak income-earning and home-buying years. A good number of baby boomers will decide to remain renters-by-choice or “lifestyle renters,” but there will be a large segment of the population that can neither rent nor own.

Although baby boomer trends are important, this section of the report will focus mainly on the emergence of the echo boomers and their impact on future housing demand. This section will also discuss general demographic trends in the United States and the West.

General Demographic Trends Affecting Housing Demand

- From 1997 to 2005, 55 to 59 year-olds will increase by 43%. The number of 30 year-olds will decrease by 12%. The 20-to-24-year-old age group will increase by 16%.
- California will continue to attract about 130,000 retirees per year. Arizona about 99,000 per year. Washington about 48,000 per year.

This migration of retirees will create a demand for assisted-living communities.

- Mobility rates have fallen over the past few decades, but the absolute number of Americans that move per year has increased to 43 million. The majority of movers are 20 to 34 years old.

Good job opportunities and a higher quality of life in the West will create a continuing demand for housing.

In the mid-'90s about 800,000 immigrants were admitted to the United States each year. One-third planned to live in the West, mostly in California. Over the next 10 years, Hispanic households will account for 30% of total household growth, up from 9%.

High levels of immigration will cause apartments to be viewed as temporary shelter or transitional housing. Stabilizing services, such as community service referral, could be offered to these residents.

- The West accounts for 21% of all households and for 23% of all household spending in the U.S. Westerners spend more on owned dwellings.

Higher housing costs create a higher propensity to rent in the West, especially in California.

- Eleven of the 20 top metros for employment growth in the next decade will be in the West. Nine of the 20 top metros for absolute employment growth also will be in the West.
- Nine of the 20 top metros for population growth in the next decade will be in the West. Nine of the 20 top metros for absolute population growth also will be in the West.

High population growth is a key factor driving housing demand in the West.

- Married couples without children under 18 are projected to show the strongest growth in absolute and relative terms. This group will comprise more than 35 million by 2006, adding 5.5 million households and growing at 19%.
- Individuals living alone are projected to outpace the majority of all other household types. This group will comprise more than 27 million by 2006, adding 3.1 million households and growing at 12.7%.
- Women living alone are projected to outpace the majority of other household types. This group will total 17 million by 2006, adding 2.1 million households and growing at 15%.

Western Regional Demographic Trends

- From 1998 to 2003, population in the West is projected to grow at a rate of 1.5% per year, compared to 0.8% for the nation overall.
- By 2005, the West will surpass the Midwest in population.
- Over the next five years, the Mountain states are expected to be the fastest-growing in the country.
- One in 10 Americans reside in California, the nation's most populous state and one of the three fastest-growing.
- California is projected to add 10 million new residents by 2040. Four million new homes will be needed to meet this demand.
- California will need 250,000 new homes each year to manage an influx of 6 million new residents and 3 million new jobs over the next decade.

The Emerging Impact of the Echo Boomers

- In most Western metros, the population of 25 to 44 year-olds is projected to decline. The population of echo boomers is projected to grow.
- **The echo boomers—who were born between 1979 and 1994 and are now five and 20 years old—will rival baby boomers in size.**
- **The echo boomers are 60 million strong, compared to 20 million for Generation X. Echo boomers are the biggest demographic bulge since the 72 million baby boomers.**

These demographic shifts and trends are leading indicators of a housing crisis waiting to happen, particularly in the West and particularly in California. HUD's budget has addressed some of these pending issues, but there will need to be an overhaul of the system for the agency to be able to handle the size and magnitude of the pending demographic and economic cycle waiting to happen.

Policy Assumptions

HUD's budget is a reflection of its long-term strategic mission and mid-term policy goals. These budget and policy goals are identified as developing new markets, affordable housing, a one America, a better quality of life and lifelong security.

NEW MARKETS

- Remain Economically Competitive, "Ensuring that our Communities Remain Economically Competitive."
 - Empowerment Zones
 - Community Block Grants

AFFORDABLE HOUSING

- Affordable Housing, "The Housing Affordability Crisis."
 - Low-income
 - Seniors
 - Homeless, Disabled and AIDS/HIV

ONE AMERICA

- Racial Integration, "Moving closer to a One America."
 - Fair Housing Laws

BETTER QUALITY OF LIFE

- Regional Integration and Economic Development, "Finding Regional Solutions and Creating Sustainable Communities."
 - Regional Connections
 - Abandoned Buildings and Brownfields

LIFELONG SECURITY

- Demographic Trends, "The Aging of America."
 - Continuum of Care

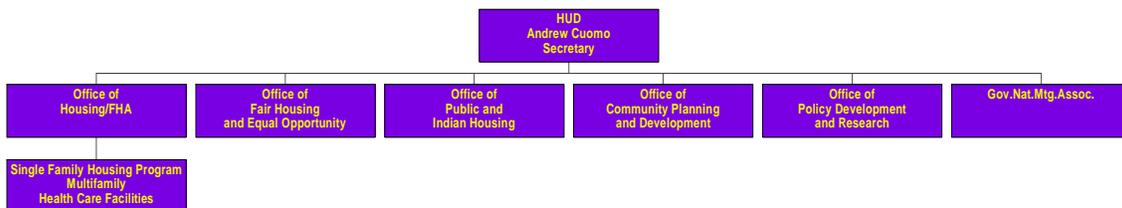
Budget Justifications

Based on these economic and demographic trends and policy goals, budget justifications are for:

- Expanding affordable housing programs. Renew expiring Section 8 rental assistance program and increase tax credit allocations.
- Expanding loan programs and guarantees.
- Expanding funding for Empowerment Zones/Block Grants.
- Expanding HOPWA (AIDS) and HUD 202 Programs (Seniors).
- Expanding Fair Housing Assistance and Welfare-to-Work Programs.
- Expanding Abandon Buildings (Inner City), Lead Reduction and Brownfields (Toxic Clean up) Programs

Organizational Chart

HUDs budget and policy goals are reflected in its organizational structure.



Overview of Proposed Budget

Aggregated Budget and Departments

Based on HUD's mission, specific goals and future economic and demographic trends, I recommend that the budget be expanding by \$1.1 billion to \$28.3 billion for FY2000, or an annual increase of 4%.

- The Department of Community Planning and Development would receive and additional \$125 million, or a 2% increase.
- The Department of Public and Indian Housing would receive and additional \$926 million, or a 5% increase.
- The Department of Housing Programs would receive and additional \$78 million, or a 5% increase.
- The Department of Policy Development and Research would receive an additional \$2 million, or a 4% increase.
- The Department of Fair Housing & Equal Opportunity would receive an additional \$7 million, or a 18% increase.
- The Office of Lead-Based Paint and Poison Prevention's budget would remain at 1999 levels.

See Table #9 in the Tables section for details.

HUD Program Funding

To achieve HUD's goals, I recommend that the following program budgets be introduced and expanded:

- Housing Certificate Fund by \$1.1 billion.
- Public Housing Operating Fund by \$185 million.
- Urban Empowerment Zones by \$105 million.
- Special Populations (Elderly/Disabled) by \$87 million.
- GI/SRI Credit Subsidy by \$72 million.

- Regional Connections by \$50 million.
- Regional Empowerment Zone Initiatives by \$50 million.
- Redevelopment and Abandon Buildings by \$50 million.
- Homeless Assistance Grants (Continuum of Care) by \$45 million.

See Table #1 in the Tables section for budget details.

Sub-Departments and Programs

Community Development Block Grants

Total appropriations for the Community Development Block Grant (CDBG) is recommended to grow to \$4.8 billion for FY2000, adding an additional \$25 million, or growing by 1%. See Table #2 and Table #4.

Empowerment Zones and Enterprise Community Initiative

Total appropriations for the Empowerment Zones and Enterprise Community Initiative program is recommended to grow to \$170 million for FY2000, adding an additional \$125 million, or growing by 300%. See Table #3.

HOME

Total appropriations for the HOME program is recommended to grow to \$1.6 billion for FY2000, adding an additional \$10 million, or growing by 0.6%. See Table #5.

One America

Total appropriations for the One America program is recommended to grow to \$47 million for FY2000, adding an additional \$7 million, or growing by 17.5%. See Table #6.

Elderly and Disabled

Total appropriations for Elderly and Disabled programs are recommended to grow to \$660 million for FY2000, on par with last year.

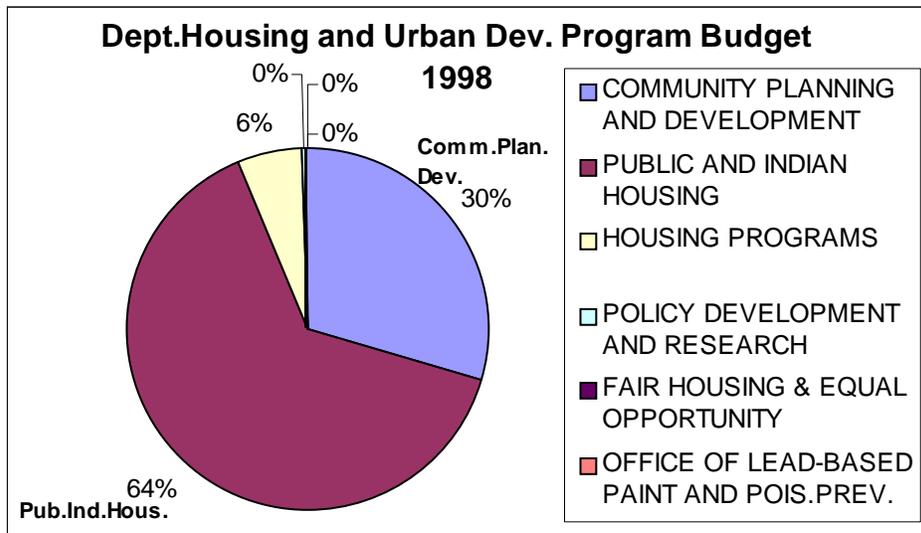
Details of the Proposed Budget

Share Analysis

Actual Budget

In 1998, the majority of HUD's budget was targeted toward the Department of Public and Indian Housing. This department appropriated the majority of its funds toward programs such as Section 8 Renewals, the Operating Fund and the Public Housing Capital Fund.

The second largest recipient of budget funds went to the Department of Community Planning and Development. The majority of funds appropriated and distributed were as Block Grants and went towards the HOME Program.



Proposed Budget

For 2000, the majority of HUD’s budget is targeted toward the Department of Public and Indian Housing. The department will continue to appropriate the majority of its funds towards Section 8 Renewals, but will increase allocations for the Operating Fund and the Public Housing Capital Fund.

The Department of Community Planning and Development will continue to be the second largest recipient for HUD funds. The majority of future funds will continue to be appropriated and distributed as Community Block Grants.

For the 2000 budget, additional allocations will be targeted toward the administration of Fair Housing and Equal Opportunity programs. This is a major policy shift, and has become a major policy priority. Housing Programs targeted toward seniors and disabled persons will also receive additional funds and are also being made a policy priority.

