

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2012 Summary Statement and Initiatives
(Dollars in Thousands)**

PUBLIC HOUSING OPERATING FUND	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2010 Appropriation	\$4,775,000	...	...	\$4,775,000 ^{a/}	\$4,754,393	\$4,602,813
2011 CR	4,775,000	...	...	4,775,000	4,775,000	4,773,000
2012 Request	<u>3,961,850</u>	<u>...</u>	<u>...</u>	<u>3,961,850</u>	<u>3,961,850</u>	<u>4,190,000</u>
Program Improvements/Offsets	-813,150	...	...	-813,150	-813,150	-583,000

a/ Includes \$15 million that was transferred to the Department's Transformation Initiative account. This amount is excluded from obligations and outlays.

Summary Statement

The fiscal year 2012 Budget request of \$3.962 billion for the Public Housing Operating Fund, coupled with \$1 billion from Public Housing Agencies' (PHAs) existing Operating Fund reserves, provides \$4.962 billion for public housing management and operations. The budget proposal funds 100 percent of PHAs' estimated eligibility for operating subsidies under the Operating Fund formula by combining the appropriations request with an offset against PHA operating reserves. This will enable 3,100 PHAs to continue to operate and manage 1.2 million public housing units across the United States.

The Department conducted an assessment of operating reserves held by PHAs and determined that many PHAs accumulated significant operating reserves over the years. As a result, PHAs (including Moving-to-Work (MTW) agencies), with significant reserves will be subject to an offset to be determined by the Secretary. In the event that sufficient reserve data are not available for an individual PHA (including MTW agencies), that PHA will be subject to a pro-rata reduction in its funding level for fiscal year 2012. HUD will ensure that any PHA subject to an offset maintains a minimum reserve level, as determined by the Secretary, to protect against unforeseen circumstances, such as emergencies, declining tenant incomes, or spikes in utility prices.

The Department understands the importance of PHAs being able to maintain operating reserves and acknowledges this course of action is a one-time occurrence.

The overall budget proposal (\$4.962 billion) represents an increase of \$187 million over the 2010 enacted level. This increase is primarily attributable to:

- An increase in Utility Expense Levels (UELs), which is the funding a PHA receives for utilities based on an estimate of current rates and consumption, with incentives for energy savings.
- Subsidy for an estimated 17,837 'Federalized' units added to the portfolio under the American Recovery and Reinvestment Act of 2009 (Recovery Act)
- Subsidy for units coming online after being rehabilitated using Recovery Act funds.

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In fiscal year 2012, the Department will implement plans to revise the methodology for determining appropriate operating funding at the PHA level. The new funding formula may provide the flexibility to adjust proration levels by PHA based on PHA performance, financial condition, vacancy rates, and other factors designed to increase the availability of affordable housing stock and maximize available Federal resources. The Department also intends to identify long-term strategies to ensure Federal resources are being maximized to meet affordable housing in local communities. Concurrently, the Department proposes to implement a Transforming Rental Assistance (TRA) demonstration to convert Public Housing units to project-based assistance contracts. The share of Capital and Operating Funds associated with converting units will be allocated to the TRA demonstration. This initiative is further discussed below under the Public Housing Initiatives heading.

In addition, Section 204(a) of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P. L. 104-134, hereinafter "MTW Statute") provides that an agency participating in the MTW demonstration program may combine Public Housing Operating and Capital funds provided under Section 9 of the U.S. Housing Act of 1937 (the "1937 Act") and voucher program funds provided under Section 8 of the 1937 Act "to provide housing assistance for low-income families, as defined in section 3(b)(2) of the 1937 Act, and services to facilitate the transition to work on such terms and conditions as the agency may propose and the Secretary may approve." Currently there are 33 PHAs classified as MTW agencies.

The MTW language above is intended to allow for the use of appropriated funds beyond what is authorized by Sections 8 and 9 of the United States Housing Act of 1937, provided the agency in the MTW demonstration program uses its combined funds to provide housing assistance for low-income families, as defined in section 3(b)(2) of the 1937 Act, and services to facilitate the transition to work, whether or not any such use is authorized by Sections 8 or 9 of the 1937 Act, and provided such uses are consistent with other requirements of the MTW Statute and have been proposed in an agency's Annual MTW Plan and approved by HUD.

Program Relationship to HUD Strategic Plan Goals and Subgoals:

The HUD Strategic Plan for fiscal years 2010 – 2015 provides guidance for the agency's budget priorities and requests. The Public Housing Operating Fund program is a significant contributor to Strategic Goal 2 — Meet the Need for Quality Affordable Rental Homes, Strategic Goal 3 — Utilize Housing as a Platform of Improving Quality of Life, and Strategic Goal 4 — Build Inclusive and Sustainable Communities Free From Discrimination.

Strategic Goal 2 — Meet the Need for Quality Affordable Rental Homes

Subgoal 2A: End homelessness and substantially reduce the number of families and individuals with severe housing needs

Currently, Public Housing contributes to Subgoal 2A by serving approximately 1.1 million families. Through the Public Housing program, the Department is maximizing Federal resources to provide relief to the neediest of our nation's citizens, which include elderly, homeless and near homeless, disabled persons, veterans, and at-risk youth. A leading cause of homelessness and worst case housing needs is the lack of housing that is affordable and available to low-income families. Affordability is one of the largest barriers for low-income families when searching for a decent and safe place to reside. For many low-income families, public housing provides an affordable housing option. Current tenant characteristics data indicate that approximately 70 percent of households are extremely low-income (defined as having a household income at or below 30 percent of the area median income) and 18 percent are/will be very low-income (defined as having a household income between 31-50 percent of the area median income). In many cases, families without access to public housing would be at risk of homelessness or worst-case housing needs. The Public Housing program plays a key role under the President's Federal Strategic Plan to Prevent and End

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Homelessness. This supports the Department's mission to promote safe, decent, and affordable housing, particularly with regard to the Department's strategic goal of ending homelessness and substantially reducing the number of families and individuals with severe housing needs.

Subgoal 2B: Expand the supply of affordable rental homes where they are most needed

Public housing currently serves approximately 1.1 million families. By the end of fiscal year 2011, HUD programs will meet more of the growing need for affordable housing by serving 5.46 million families, 207,000 more than in fiscal year 2009. Public Housing will contribute 38,000 families towards this goal, or 18 percent of the total increase in families served. This increase will be achieved through increased leasing of currently vacant units and continued utilization of both Recovery Act and non-Recovery Act Capital funds for modernization efforts and development activities.

One of the greatest impediments to serving more families within the Public Housing program is the definition of data points and proper tracking for public housing units. The primary source of data regarding the Public Housing program is the Inventory Management System (IMS), a sub-module of the PIH Information Center (PIC) system, which facilitates the flow of program data from the PHAs to the Department. However, this information is subject to human decision-making, and often the definitional boundaries of some designations are unclear, such as those categories used for approved unit vacancies. To address the matter, the Department has developed and is implementing protocols for analyzing IMS-PIC vacancy data and confirming the accuracy of data entered by PHAs. Program monitoring directives such as these provide the greatest potential for increasing success in Public Housing utilization. For the IMS-PIC system to be most effective, data entered into the system must be correct. As such, the Department will continue to work to validate data entered into the IMS-PIC system on a routine basis in order to guarantee the quality and reliability of the data that drives policy and program decisions at the national level.

Additionally, PIH is developing a portfolio management tool that will enable PIH to determine which HUD regions could increase Public Housing unit utilization for each of their assigned PHAs, but crucially in line with available resources. By exercising consistent and robust oversight, HUD will ensure that occupancy rates are high and the maximum leasable units are online. Use of the portfolio management tool will promote stability across the program, leading to more effective implementation and greater utilization rates nationwide.

Current market indicators reinforce the importance of maximizing leasing utilization. The recession and the increasing demand for rental housing generated by the foreclosure crisis have exacerbated the demand for rental assistance. At the same time, the freeze in credit markets and the sharp reduction in demand for Low-Income Housing Tax Credits (LIHTCs) have greatly diminished the private capital available to improve and expand the supply of affordable rental housing. In addition, continued high unemployment rates have stressed demand for affordable rental housing by reducing family incomes and slowing turnover by families currently residing in affordable units. Taken together, these market forces underscore the importance of Public Housing and the Department's efforts to expand the supply of affordable housing through fiscal year 2012 and beyond. In order to achieve these goals under these conditions, the Department will implement the management improvements mentioned above with others designed to expand the supply of affordable housing.

Subgoal 2C: Preserve the affordability and improve the quality of Federally assisted and private unassisted affordable rental homes

Public Housing Operating and Capital Fund maintain and preserve the affordability and quality of Federally assisted housing. These funds are the primary vehicles for preserving and improving Public Housing units for future generations. The Department distributes these funds annually via formula to more than 3,100 PHAs throughout the country.

Furthermore, in order to preserve the affordability and improve the quality of assisted housing, the Budget includes funding for a Transforming Rental Assistance (TRA) demonstration to convert public housing primarily to long-term project-based rental assistance contracts. Under TRA, PHAs will be able to access private

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capital to finance capital needs at levels not possible under current Public Housing program rules and funding systems. The transition to TRA will lead to the preservation and long-term viability of thousands of units. The project-based approach to funding is consistent with asset management principles: providing access to capital markets to finance the backlog of needs, improving housing conditions for tenants, increasing opportunities for income mixing, and introducing greater market discipline.

Subgoal 2D: Expand families' choices of affordable rental homes located in a broad range of communities

The Public Housing program provides affordable units that are located in a broad range of communities. Public Housing developments serve as bridges to opportunities for residents to reside in livable, sustainable communities. The Public Housing Program promotes access to services and programs that enhance health, safety, employment, and educational outcomes. Public Housing is located in a wide variety of neighborhood types across the country including rural, suburban, and central cities. Public housing is located in every region of the United States and its territories.

Strategic Goal 3—Utilize Housing as a Platform for Improving Quality of Life

Subgoal 3B: Utilize HUD assistance to improve health outcomes

The Public Housing program provides families and individuals with decent, stable, and safe housing. In addition to providing healthy housing, PIH endeavors to mobilize HUD assistance to improve health outcomes for residents., PIH has established partnerships that provide opportunities for residents to increase their knowledge of health education and to improve their access to health services. These partnerships include working with the Department of Health and Human Services on a number of initiatives at the Federal, state, and local level.

Subgoal 3C: Utilize HUD assistance to increase economic security and self-sufficiency

The Public Housing program currently encourages and supports programs that promote economic security and self-sufficiency for those residents looking to increase their self-sufficiency and those who are in need of longer-term support. Using existing resources, public housing programs increase access to services such as education training, employment training, financial literacy and asset building, all of which will enable participating families to increase earned income, reduce or eliminate the need for welfare assistance, and make progress toward achieving economic independence and housing self-sufficiency. Public and private partnerships at the Federal, state, and local level also support improving access to job training and opportunities for residents. In addition, Public Housing programs provide direct job opportunities through compliance with Section 3, which incentivizes the employment of public housing residents for contract work and services funded with Capital funds.

Subgoal 3D: Utilize HUD assistance to improve housing stability through supportive services for vulnerable populations, including the elderly, people with disabilities, homeless people, and those individuals and families at risk of becoming homeless

Through the promotion of existing public housing programs and new initiatives related to the Federal Strategic Plan to Prevent and End Homelessness, HUD assistance is being utilized to support housing stability for vulnerable populations and those individuals and families that are homeless or are at risk of becoming homeless. Existing programs and public and private partnerships provide the foundation for support and access to programs such as mental health services, veterans' health and benefit programs, and medical services. Service Coordinators supported by public housing programs allow dedicated individuals to

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coordinate services for vulnerable populations. Public housing programs also provide targeted support and services to enable elderly and disabled residents to continue to stay in place and live independently. In addition, PHAs may formally designate units for occupancy by elderly and disabled individuals and families.

Subgoal 3E: Utilize HUD assistance to improve public safety

PHAs are permitted to use funds to address crime and drug use problems and to incorporate safety and security measures on their properties. Operating Fund assistance may be used for anticrime and antidrug activities such as the costs of providing adequate security for Public Housing residents, including above baseline police service agreements. PHAs' Annual Plans establish their plans for safety and crime prevention. These plans are created in consultation with local police and contain the measures necessary to ensure the safety of Public Housing residents. Investing funds to improve public safety makes properties and their surrounding neighborhoods more desirable and results in safer communities, which attract more business and increase opportunities for employment. This attention to public safety furthers the Department's long-term goal of eliminating concentrations of poverty in order to establish more open, diverse, and equitable communities.

Strategic Goal 4—Build Inclusive and Sustainable Communities Free From Discrimination

Subgoal 4B: Promote energy-efficient buildings and location-efficient communities that are healthy, affordable, and diverse

The public housing program promotes energy-efficient buildings that are affordable and diverse. As part of its formula funding to PHAs, the Operating Fund program pays utility costs not covered by tenant rents and tenant utility payments and provides incentives to encourage energy conservation measures in existing low-rent Public Housing. By providing financial incentives through PHA's Energy Performance Contracts (EPC), the Public Housing program will contribute to the 159,000 units the Department has set as a goal for cost-effective energy and green retrofits. Additionally, the Operating Fund formula for utilities allows housing authorities that have consumption-based energy savings to keep part of those savings for use towards other affordable housing purposes.

Subgoal 4C: Ensure open, diverse, and equitable communities

Public housing ensures open, diverse, and equitable communities by providing a stable, affordable housing resource in many rural, suburban and central city areas across the nation. In this way, the Public Housing program contributes to the viability of communities in which all people have access to the same transportation, health, educational, and employment opportunities. The Department believes that investment at the neighborhood level can transform distressed neighborhoods and ultimately improve the quality of life for current and future residents. Mixed-Finance public housing allows HUD to mix public, private, and non-profit funds to develop and operate housing developments that encourage this kind of diversity. New developments may be made up of a variety of housing types: rental, homeownership, private, subsidized, and public housing. These new communities are built for residents with a wide range of incomes and are designed to blend with the surrounding community. Moving-to-Work (MTW) is another program that provides PHAs the opportunity to design and test innovative, locally designed strategies to help residents find employment and become self-sufficient.

Public Housing Initiatives

Transforming Rental Assistance (TRA):

The Budget requests \$200 million for a TRA demonstration. HUD estimates that the public housing inventory faces a capital needs backlog ranging from \$20 to \$30 billion. Given this large backlog and fiscal constraints, the Department must find alternative means, other than direct capital grants, to meet these needs.

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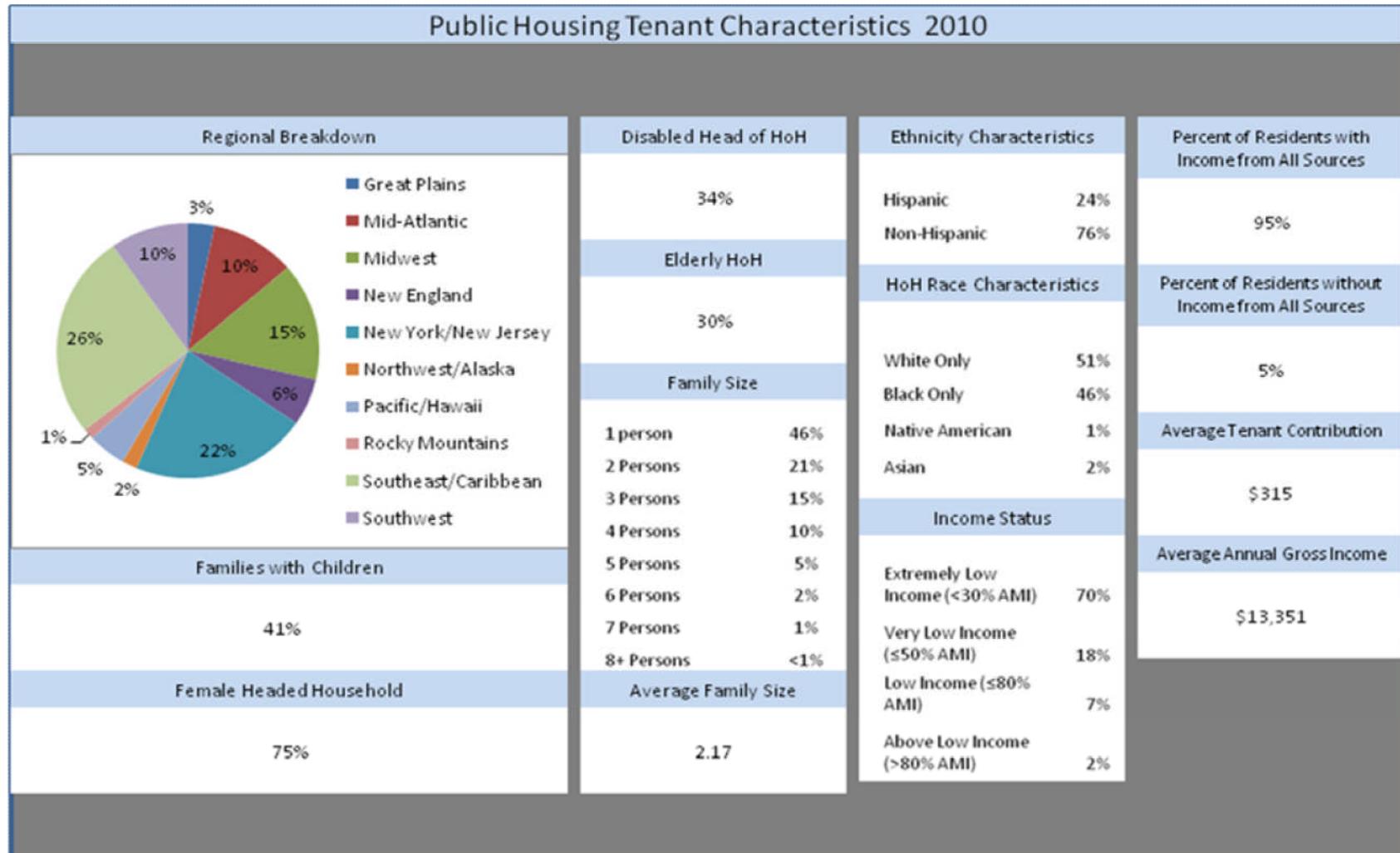
To protect the considerable Federal investment and respond to the growing demand for affordable rental housing, HUD must continue to make standard life-cycle improvements to the public housing inventory while also modernizing or replacing obsolete units. Without substantial investment in the inventory, HUD will continue to lose affordable housing units to obsolescence and other states of disrepair. TRA will address this problem by increasing access to private capital and management techniques.

Homelessness Initiative:

The public housing component of the Federal Strategic Plan to Prevent and End Homelessness supports the Department's mission to promote safe, decent, and affordable housing, particularly with regard to the Department's strategic goal of ending homelessness and substantially reducing the number of families and individuals with severe housing needs. This plan fits into the larger strategy of the United States Interagency Council on Homelessness (USICH) and its Federal Strategic Plan to Prevent and End Homelessness. The USICH and its 19 member agencies developed this plan, which will be the most far-reaching and ambitious program to end homelessness in U.S. history.

Program Reforms

The 2012 Budget also includes key provisions that improve HUD's three largest rental assistance programs: Housing Choice Vouchers, Project-Based Rental Assistance, and Public Housing. The proposal: 1) broadens the extremely low-income targeting requirements by applying it to families with the higher of 30 percent of Area Median Income or the Federal poverty level; 2) increases the standard deduction for elderly and disabled households from \$400 to \$675 and raises the deduction for excess medical expenses from 3 percent to 10 percent of income; 3) streamlines the program by permitting 3-year annual re-certification for fixed-income families; 4) provides PHAs the authority to approve exception rents for disabled voucher households; 5) enables HUD to produce more timely Fair Market Rent data on an annual basis; and 6) authorizes a rent demonstration project.



Source: 2010 Public and Indian Housing Information Center (PIC) data

HOH is Head of Household

AMI is Area Median Income

Wages from non-elderly non-disabled households (includes income from all sources, such as wages and SSI)

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**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2010 Budget Authority</u>	<u>2009 Carryover Into 2010</u>	<u>2010 Total Resources</u>	<u>2010 Obligations</u>	<u>2011 CR</u>	<u>2010 Carryover Into 2011</u>	<u>2011 Total Resources</u>	<u>2012 Request</u>
Operating Subsidy	\$4,760,000	...	\$4,760,000	\$4,754,393	\$4,775,000	...	\$4,775,000	\$3,961,850
Transformation Initiative	<u>15,000</u>	<u>...</u>	<u>15,000</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total	4,775,000	...	4,775,000	4,754,393	4,775,000	...	4,775,000	3,961,850
 <u>FTE</u>	 <u>2010 Actual</u>	 <u>2011 Estimate</u>	 <u>2012 Estimate</u>					
Headquarters	199	154	154					
Field	<u>290</u>	<u>308</u>	<u>298</u>					
Total	489	462	452					

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Program Offsets
(Dollars in Thousands)**

Operating Subsidy	<u>Amount</u>
2010 Appropriation	\$4,760,000
2011 CR	4,775,000
2012 Request	<u>3,961,850</u>
Program Improvements/Offsets	-813,150

Proposed Actions

The Department requests \$3.962 billion in operating subsidy for fiscal year 2012. Combined with \$1 billion from their operating reserves, PHAs will have a total of \$4.962 billion for 2012. Operating subsidies are provided to PHAs to fund the operating and maintenance expenses of PHAs. The Department’s request, coupled with an offset of Public Housing Operating Reserves, will fully fund the Operating Fund eligibility for fiscal year 2012.

The Department conducted an assessment of amounts available in PHA Operating Reserves. The recently completed analysis determined that many PHAs accumulated significant operating reserves over the years. As a result, PHAs (including MTW agencies), with significant reserves will be subject to an offset to be determined by the Secretary. In establishing offset amounts to provide full funding eligibility under the Operating Fund formula, the Secretary will maintain appropriate reserve levels for PHAs and take into consideration factors including, but not limited to, program size and reserve levels as reported by PHAs during calendar year 2010. In the event that sufficient reserve data are not available for an individual PHA (including MTW PHAs), that PHA will be subject to a pro-rata reduction in its funding levels for fiscal year 2012. Any PHA subject to an offset will maintain a minimum reserve level, as determined by the Secretary, to protect against unforeseen circumstances, such as emergencies, declining tenant incomes, or spikes in utility prices.

The Department understands the importance of PHAs being able to maintain operating reserves and acknowledges this course of action is a one-time occurrence.

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Eligibility Table	ACTUAL	ESTIMATE	ESTIMATE
Description	<u>2010</u>	<u>2011</u>	<u>2012</u>
Non Utility Expense Level (PEL)	4,782	5,039	5,098
Utilities	1,698	1,489	1,812
Less: Tenant Income	-2,764	-2,895	-2,965
Public Housing Operating Fund Base (line 1-3)	3,717	3,633	3,945
MTW Alternative Formula Grant, PHA's not in Base	467	480	492
Public Housing Add-ons			
Elderly/Disabled Coordinators	16	17	17
Resident Participation	25	25	25
Energy-Add On for Loan Amortization	34	34	37
Payments in Lieu of Taxes	113	117	122
Cost of Independent Audit	22	22	24
Asset Management Fee	42	40	42
Information Technology Fee	26	27	27
Asset Repositioning Fee	75	80	80
Mutual Help and Turnkey Units	0	1	1
Estimated Appeals	0	10	10
Transition Funding	142	140	140
Subtotal: Operating Fund Base (line 4-17)	4,680	4,626	4,962
Less Rescission	0	0	0
Unfunded Proration	<u>0</u>	<u>0</u>	<u>0</u>
Total Funded	4,760	4,775	4,962
Set-asides Within the Operating Fund:			
Transformation Initiatives	15		
Subtotal Set-asides (line 22-23)	15		
Total Budget Year Enacted/Requested	4,775	4,775	4,962
Total Resources Available	4,775	4,775	4,962

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Notes and Assumptions

- 1) **Eligible Unit Months.** The Public Housing Operating Fund subsidizes PHAs, principally, based on eligible unit months (EUMs). As indicated in the chart below, EUMs include additional “Federalized” units as a result of American Recovery and Reinvestment Act of 2009 (Recovery Act) and increased occupancy for 2011 and 2012. No change in EUMs is anticipated for “alternative formula” MTW agencies.

Unit Months	2010 Actual	2011 Estimate	2012 Estimate
Eligible Unit Months	12,622,582	12,708,018	12,941,464
Eligible Unit Months (Alternative Formula MTWs)	865,531	865,531	865,531
Eligible Unit Months (Total)	13,488,113	13,573,549	13,806,995
% Change	0%	1%	2%

- 2) **Inflation Factors.** The Public Housing Operating Fund uses separate inflation factors for non-utility and utility assumptions. The table below shows the inflation factors used for purposes of preparing the Budget Request. An explanation follows.

Year	2010	2011	2012
Non-Utility Inflation Factor	1.035	1.0314	1.0296
Utility Inflation Factor	1.055	-1.0572	1.0462

- **2010.** The non-utility inflation factor (1.035) represents the actual inflation factor assigned to PHAs to prepare 2010 subsidy submissions. The non-utility inflation factor is calculated using a weighted average of local government wages and non-wage expenses. The utility inflation factor represents the inflation factor used to calculate the actual 2010 utility expense level (UEL) eligibility. It is based on the rate of change in CPI utility indices, weighted by Public Housing costs for each utility type.
 - **2011.** The non-utility inflation factor (1.031) is based on OMB economic assumptions for both pay/personnel and non-pay costs. The utility inflation factor (-1.0572) is based on OMB economic assumptions for different types of utilities and weighted by Public Housing costs for each utility type.
 - **2012.** The non-utility inflation factor (1.03) is based on OMB economic assumptions for both pay/personnel and non-pay costs. The utility inflation factor (1.0462) is based on OMB economic assumptions for different types of utilities and weighted by Public Housing costs for each utility type.
- 3) **Add-Ons:** Add-ons are other formula expenses not included in the PEL or UEL. Assumptions regarding each add-on are presented below.
- a. Elderly/Disabled Service Coordinators. The estimate reflects actual funding in 2010 for the annual renewal of the Public Housing elderly and/or disabled service coordinators, inflated by the non-utility inflation factors and adjusted for the unit change.
 - b. Resident Participation. The estimate reflects actual funding in 2010 for the Resident Participation add-on (\$25 per occupied unit).

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- c. Energy Add-On for Loan Amortization. The estimate reflects actual funding in 2010 for Energy Loans, inflated by the non-utility inflation factors and adjusted for the unit change. This add-on covers the loan principal and interest payments of the energy conservation measures incurred by a PHA in accordance with regulations.
 - d. Payments in Lieu of Taxes (PILOT). The estimate reflects the actual funding in 2010 for PILOT, inflated by the non-utility inflation factors and adjusted for the unit change. Beginning in 2007, PILOT costs became an add-on under the Operating Fund Formula.
 - e. Cost of Independent Audit. The estimate reflects the actual funding in 2010 for Independent Audits, inflated by the non-utility inflation factors and adjusted for the unit change. PHAs are eligible for funding for the expense of auditing their Operating Fund program in accordance with Generally Accepted Accounting Principles (GAAP).
 - f. Asset Management Fee. The estimate reflects the actual funding in 2010 for the Asset Management Fee, adjusted for the unit change. PHAs with at least 250 units are eligible to receive a \$4 Per Unit Month (PUM) asset management fee. PHAs with less than 250 units that elect to transition to project-based management are eligible for a \$2 PUM asset management fee.
 - g. Asset Repositioning Fee. The estimate reflects the actual funding in 2010 for Asset Repositioning Fee, inflated by the non-utility inflation factors and adjusted for the unit change. PHAs that transition public housing units out of their inventory are eligible for an asset-repositioning fee. This fee supplements costs associated with administration and management of demolition or disposition, tenant relocation, and minimum protection and services associated with such efforts.
 - h. Information Technology (IT) Fee. The estimate reflects the actual funding in 2010 for the IT Fee, adjusted for the unit change. PHAs are eligible for a \$2 PUM funding for costs attributable to information technology. This fee supplements higher information technology expenses associated with the management of Public Housing.
 - i. Transition saving/cost. The estimate is based on approved stop-loss applications to date and the estimated transition-funding schedule. These savings and costs result from the transition provision of the new Operating Fund Rule. Beginning in 2007, “gainer” agencies had their higher subsidy levels phased-in over 2 years; “decliner” agencies had their lower subsidy levels phased-in over 5 years. Transition funding for “Stop Loss” PHAs – decliners under the formula - continues through 2012 during the process for an update of the PEL methodology.
 - j. Estimated Appeals. The Department estimates appeals of \$10 million.
- 4) **Formula Income**. Amount for 2012 is estimated at \$2.965 billion, or approximately \$225 PUM. This amount is based on actual rental income of \$218 PUM reported by PHAs on annual submissions during fiscal year 2010. The inflation factor of 1.37 percent (based on current trends) is applied annually through fiscal year 2012. The new PUM is then multiplied by the estimated EUMs.
- 5) **Explanation of trends in subsidy eligibility**. Overall subsidy eligibility was \$4.680 billion in 2010 and estimated to be \$4.626 billion in 2011 and \$4.962 billion in 2012. The main reasons for the general change in subsidy eligibility are as follows:
- **PHA increases in utility costs**. PHAs are provided funding for utilities based on a formula that, in large part, reflects historical consumption, recent rates, and inflation rates that project future cost.
 - **Inventory increases**. Additional units to be added to the inventory as a result of the “Federalization” of units under the Recovery Act, and increased occupancy of existing modernized units. Increased inventory is also anticipated to be slightly offset by reductions of 0.5 percent in 2011 and 0.05 percent in 2012 due to demolitions and dispositions.

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**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Program Offsets
(Dollars in Thousands)**

Transformation Initiative	<u>Amount</u>
2010 Appropriation	\$15,000
2011 CR .....	...
2012 Request	<u>...</u>
Program Improvements/Offsets .....	...

Proposed Actions

In fiscal year 2012, the Department renews its request for the Transformation Initiative, which provides the Secretary the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. Up to 0.5 percent of the funds appropriated for this account may be transferred to the Transformation Initiative Fund account for the following purposes: research, evaluations, and program metrics; program demonstrations; and technical assistance and capacity building. Department wide, no more than \$120 million will be transferred to the Transformation Initiative Fund account in fiscal year 2012. More details on the overall Transformation Initiative and these projects are provided in the justification for the Transformation Initiative Fund account.

Public Housing Operating Fund

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Appropriations Language**

Below is the italicized appropriation language for the Public Housing Operating Fund.

For 2012 payments to public housing agencies (PHAs) for the operation and management of public housing, as authorized by section 9(e) of the United States Housing Act of 1937 (42 U.S.C. 1437g(e)), \$3,961,850,000: Provided, That, in determining public housing agencies' (PHAs), including Moving to Work (MTW) agencies', calendar year 2012 funding allocations under this heading, the Secretary shall take into account PHAs' excess operating reserves, as determined by the Secretary: Provided further, That if sufficient reserve-level data are not available with respect to the previous proviso, the Secretary may make a pro rata reduction in funding provided under this heading to PHAs, including MTW agencies.

Changes from 2010 Appropriations

Provides the Secretary authorization to offset PHA reserves (including MTW agencies).

Provides flexibility to prorate PHAs with insufficient reserve-level data.

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**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Crosswalk of 2010 Availability
(Dollars In Thousands)**

<u>Budget Activity</u>	<u>2010 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2010 Resources</u>
Operating Subsidy	\$4,760,000	...	...	...	...	\$4,760,000
Transformation Initiative	<u>15,000</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>15,000</u>
Total	4,775,000	...	...	...	...	4,775,000

Public Housing Operating Fund

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
Crosswalk of 2010 Changes
(Dollars In Thousands)**

<u>Budget Activity</u>	<u>2011 President's Budget Request</u>	<u>2011 CR</u>	<u>2011 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2011 Resources</u>
Operating Subsidy	\$4,780,710	\$4,775,000	...	...	...	\$4,775,000
Transformation Initiative	<u>48,290</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total	4,829,000	4,775,000	...	...	...	4,775,000