

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2013 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>
2011 Appropriation	\$4,626,000	...	-\$9,252	\$4,616,748 ^a	\$4,600,004	\$4,620,306
2012 Appropriation/Request	3,961,850	...	...	3,961,850	3,961,850	4,165,000
2013 Request	<u>4,524,000</u>	<u>...</u>	<u>...</u>	<u>4,524,000^b</u>	<u>4,399,000</u>	<u>4,276,000</u>
Program Improvements/Offsets	+562,150	...	...	+562,150	+437,150	+111,000

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

b/ Includes an estimated Transformation Initiative (TI) transfer of \$23 million in fiscal year 2013; the TI transfer may be up to 0.5 percent of Budget Authority.

Total resources and obligations for fiscal year 2013 exclude an estimated \$51 million transfer from the Public Housing Operating Fund for implementation of the Rental Assistance Demonstration (RAD).

1. What is this request?

The fiscal year 2013 Budget request provides \$4.524 billion for the Public Housing Operating Fund. The Operating Fund provides operating subsidy payments to over 3,100 Public Housing Authorities (PHAs) for the operation, management, and maintenance of 1.2 million units of publicly owned affordable rental housing throughout the United States and its territories. These funds allow PHAs to provide decent, safe, and deeply affordable housing for low-, very low-, and extremely low-income families. The fiscal year 2013 Budget request represents an increase of \$562 million over the fiscal year 2012 enacted appropriation level. The overall request also provides additional flexibilities in order to reduce administrative burden on PHAs and help them operate and manage their housing portfolios more effectively and efficiently.

In 2012, PHAs with excess operating reserves were required to use those reserves to cover normal operating costs. As a result, the level of reserves above the recommended minimum level has been significantly reduced and reserve balances are not available to offset program funding needs for 2013. Asking PHAs to dig deeper into their reserves could potentially leave them in a financially unstable position and is therefore not part of this request.

Operating Fund eligibility for PHAs is determined based on a formula. That formula was established through negotiated rulemaking in 2007 and is codified at 24 C.F.R. 990. A 2003 study by the Harvard University Graduate School of Design (the "Harvard Cost Study") provided the basis for negotiations. When combined with tenant rents and funded at 100 percent of formula, this subsidy

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provides PHAs with the resources needed to manage, maintain, and operate their properties and contributes to the provision of supportive services for elderly and non-elderly residents.

Operating Fund subsidy eligibility has four primary cost drivers:

1. the allowable Project Expense Levels (PEL) which were baselined against comparable FHA properties;
2. the reimbursement cost of utilities or the Utilities Expense Level (UEL);
3. tenant incomes and their corresponding rent contributions; and, finally
4. the number of months a unit is eligible for funding or the Eligible Unit Months (EUMs).

The fiscal year 2013 Budget request reflects the application of inflation adjustments for cost drivers 1 thru 3. The PEL inflation factor (3.3 percent) incorporates economic assumptions from the Office of Management and Budget (OMB) for pay/non-pay cost indices and is based on a weighted average. For utilities, a blended methodology using Consumer Price Index cost data and OMB forecasts yields an inflation factor of .48 percent. The inflation factor for tenant income (1.48 percent) was validated against tenant income changes reported in the Public and Indian Housing Information Center (PIC) and found to be reasonable based on recent historical trends. This request also assumes an increase in the minimum rent from up to \$50 to \$75 per month.

EUMs were derived by looking at the most recent unit universe report in HUD's systems and adjusting for anticipated changes in the inventory expected to become effective by 2013. The increase in estimated eligibility is due in part to inflation factors and, to a lesser extent, an increase in the number of units eligible for funding as a result of modernization and capital investment activities. An additional 4,100 units are expected to become available primarily as a result of funds provided under the Recovery Act.

Consistent with this period of constrained resources and surging demand, the Department also continues to move in the overall direction of "doing more with less" by providing PHAs with greater flexibility in the use and administration of existing resources, through the provisions described below. Many of these provisions build on the lessons learned from the PHAs participating in the Moving-to-Work (MTW) program, authorized under Section 204(a) of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P. L. 104-134). MTW PHAs enjoy broad flexibility to combine funding sources and waive requirements in order to provide housing assistance and services to low-income families.

1. Operating Fund /Capital Fund Flexibility. The Quality Housing and Work Responsibility Act of 1998 (QHWRA) established two distinct funding streams for public housing, the Operating Fund and the Capital Fund. The Operating Fund provides for the operation and management of public housing, and the Capital Fund supports the development, financing, and modernization of public housing developments. With key exceptions, Operating and Capital Funds have separate use authorities and are generally

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not fully fungible for PHAs with more than 250 units. This bifurcated funding stream creates statutory distinctions that are unnecessarily difficult to implement and regulate. The Administration will submit authorizing legislation to consolidate the Operating Fund and Capital Fund programs, which will complete the transition to asset management, simplify the program, and reduce administrative burden. As a first step towards consolidation, the Budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense. This general provision is budget neutral.

2. Consolidated Opportunities for Resident Enrichment (CORE). In this tight economic environment, it is critical that PHAs, including MTW PHAs, have flexibility in order to meet the needs of their resident communities. While it is necessary for HUD and PHAs to focus their resources on housing, it is also HUD's responsibility to ensure that public housing and Section 8 Housing Choice Voucher families have access to the necessary resources that will help them become self-sufficient or, in the case of elderly or people with disabilities, to remain successfully housed. The best way to ensure that families remain successfully housed, and ultimately obtain non-Federally assisted housing where possible, is to ensure that all public housing and Section 8 Housing Choice voucher residents are connected to the appropriate support systems in their communities.

In order to provide PHAs with much needed flexibility so that they can use housing as a platform for improving the quality of life for their public housing and Section 8 Housing Choice Voucher families, HUD is asking for permission to provide PHAs with the authority to create the Consolidated Opportunities for Resident Enrichment (CORE) flexibility. This flexibility, which is a consolidated fund of a certain percentage, to be determined by the Secretary, of the assistance received under each of the Operating Fund, Capital Fund, and Section 8 Housing Choice Voucher administrative fees for resident supportive service purposes such as service coordination, case management, direct services where the communities lack them, administration of service programs and including but not limited to eligible resident supportive and self-sufficiency service activities listed in Housing Choice Voucher activities found under Section 8, Capital Fund activities found under Section 9(d)(1)(E), (H) and (I); Operating Fund activities found under Section 9(e)(1)(C), (D), (H), and (K); activities for services found under Section 34 (b)(1)-(6); a PHA's Moving-to-Work Plan and PHA resident supportive and self-sufficiency services permitted under HUD regulations.

It is expected that combining these funds will result in cost efficiencies, freeing up resources so that PHAs can successfully use housing as a platform for improving quality of life. PHAs will be given flexibility to combine these funds and use them for the purpose of improving outcomes for all residents, including children, families, elderly, and disabled, who receive housing assistance through either Section 8 or 9. This consolidated approach also provides PHAs with flexibility to address the specific needs of the residents in their communities. As a result, PHAs would be better equipped to promote positive resident outcomes related to education, health, economic security and self-sufficiency, and safety.

In order to use these consolidated funds for this purpose, the PHA may not be designated pursuant to section 1437d (j)(2) of the United States Housing Act of 1937 or 24 CFR § 985.103 as a troubled public housing agency, and (in the determination of

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the Secretary) should be operating and maintaining its public housing in a safe, clean, and healthy condition. PHAs that choose to fund activities using this flexibility will be required to provide the following in their PHA Plan: evidence of meaningful resident and community participation, the results of a needs assessment that identifies the issue that it is trying to solve, the action plan for how the PHA will use the CORE flexibility to address the needs, and the outcome measures the PHA will track to ensure the outcomes improve.

This approach to consolidated resident service activities is budget neutral, and HUD is not requesting any additional funds for this purpose. PHAs can choose to use funds that are appropriated to the Operating Fund, Capital Fund, and Section 8 Housing Choice Voucher administrative fees for this purpose. Further, this approach streamlines how both HUD and the PHAs operate, as it does not require a burdensome competition and enables PHAs to have a consolidated approach to resident services for all of its residents.

3. Family Self-Sufficiency (FSS). The Department's fiscal year 2013 budget request includes \$60 million for the FSS program. The Department is also requesting authority to combine the funding for PH and HCV FSS program coordinators into a new account, which will result in program streamlining and will permit coordinators to provide better and more uniform services for families assisted through both the PH and HCV programs.
4. Consortia. There is no statutory provision for PHAs to form consortia for the purposes of administering public housing programs, as there is currently for the purposes of administering tenant-based assistance. Changing the definition of a "public housing PHA" to include a "consortium of PHAs" will benefit PHAs that combine operations by reducing their administrative costs and achieving operating efficiencies, pursuant to the issuance of guidance. It could also have other benefits, such as allowing PHAs to form consortia as a step toward eventual consolidation, or joining a consortia as a strategy for PHAs to get out of their "troubled" designation.

The Department also pursues the authority to implement a Rent Policy Demonstration to determine the effectiveness of various rent policies intended to encourage employment and increases in income among assisted families, including public housing families. Again, this Demonstration would build upon lessons learned in the MTW program; many PHAs participating in that program have, for example, implemented variations on the earned income disregard in order to facilitate families' transition to work.

The current housing crisis underscores the broad impact housing has on peoples' lives. The importance to families and communities of quality, stable, affordable rental housing has never been more apparent. Reliable funding for the public housing program establishes a stable foundation for residents, supporting their efforts to achieve their goals and increase their economic security and self-sufficiency. Increased flexibility in the use of this funding will provide PHAs with greater latitude in responding to housing needs in their local communities in a way that more closely approximates how private real estate is managed.

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Not only would funding at a lower level potentially reduce the number of families served, it may also lead to the following negative consequences:

- Job losses. Within a real estate and asset management environment, including within the private rental market, staff and utilities represent the largest operating cost drivers. If PHAs are forced to cut operating expenses, jobs may be lost and local communities may see an increase in their local supply/demand imbalance for affordable housing resources as well as a surge in demand for social services.
- Diminished quality of life for residents. A reduction in staff may result in longer response times on work orders and may affect the upkeep and maintenance of common areas and property grounds. In some instances, units may reach such a level of disrepair that they fall into a state of obsolescence, disrepair, and/or removal from the inventory thereby reducing the supply of affordable housing and leaving vulnerable families at risk of homelessness.
- Longer periods of vacancy. Absent adequate funding to support unit turnover and make-ready activities and admissions screening, units that become vacant could remain vacant for longer periods of time, depriving eligible families of housing and reducing the supply of affordable housing in local communities.
- Increased worst-case housing needs and homelessness. If PHAs choose to admit higher-income families to cover a shortfall, it may increase the number of families with worst-case housing needs or that become homeless.
- Diminished community security. Public housing residents and families in the local community could be placed at risk if PHAs scale back on security.
- Increased capital needs. To sustain their operations, PHAs may be forced to transfer Capital Funds over to their Operating Fund, resulting in the deferral of maintenance activities and contributing to the accrual of additional capital repair and replacement needs. With an estimated capital needs backlog above \$20 billion, the use of Capital Funds to support operations may undermine the long-term viability of the public housing portfolio.

Further, funding at a lower level may also undermine the capacity of PHAs to address their properties' capital needs through conversion under HUD's Rental Assistance Demonstration (RAD), which is described thoroughly in a separate justification. Though Congress provided the authority for PHAs to voluntarily convert to project-based section 8 funding under RAD, Congress provided no additional, incremental subsidy to facilitate such conversions. Properties convert at their existing subsidy levels, which — in the interest of preservation — must be demonstrably adequate to address capital needs without undermining long-term operating sustainability. To the extent existing subsidy levels are reduced, it will reduce the pool of public housing properties that are eligible for conversion through RAD.

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In fiscal year 2013, 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; technical assistance; capacity building and information technology. Departmentwide, no more than \$120 million is estimated to be transferred to the Transformation Initiative Fund account in fiscal year 2013, although transfers could potentially total up to \$214.8 million. More details on the overall Transformation Initiative and these projects are provided in the justification for the Transformation Initiative Fund account.

2. What is this program?

Authorized by Section 9 of the United States Housing Act of 1937, the public housing operating fund program supports the operation of 1.2 million units of public housing, contributing to the long-term viability and preservation of the portfolio. Of the families served by the program, nearly 60 percent are elderly and/or disabled households on a fixed income. The program also allows communities to consider their local priorities for serving housing needs and establish preferences for the elderly, disabled, homeless veterans, homeless persons generally, or the working poor. In addition, Public Housing remains a key component of the overall effort to eliminate homelessness, including veteran's homelessness.

Originally designed to house middle-class families struggling to find work during the Great Depression, over the years the program has come to serve greater numbers of vulnerable, low- and extremely low-income families, as a result of policy shifts and broader market dynamics. Currently, the program serves families with an average household income of approximately \$13,000. In comparison, the median family income in the United States is \$60,000. Extremely low-income families (families earning less than 30 percent of an area's median income) make up 71 percent of public housing households. Families whose incomes are low enough to qualify for public housing increasingly struggle to find other sources of housing that they can afford. Nearly 60 percent of the families who reside in public housing are headed by a person who is elderly, disabled, or both. More than 40 percent of all households served include children. The average household contributes more than \$300 a month toward rent and utilities.

To meet the needs of vulnerable families and the statutory and regulatory requirements of the program, PHAs must perform admissions and intake screenings that include criminal background checks, annual recertifications to ensure families are continuously eligible for assistance, validation that those assisted households who are subject to a community service requirement have satisfied that obligation, activities related tenant self-reliance/self-sufficiency services the agency provides, and facilitate resident engagement efforts. The PHA must also respond to tenant requests, monitor their activities with regards to lease and program requirements, and conduct timely rent collections. When necessary, PHAs have the undesirable task of eviction for violations of program requirements and lease provisions, including non-payment of rent. This process includes implementing resident protections, including providing a

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grievance hearing process to ensure that the action is appropriate, the information upon which the decisions is based is accurate and to provide an opportunity to consider mitigating circumstances.

In addition to their occupancy management activities, PHAs are the stewards of a real estate portfolio and must serve as asset managers over the physical and financial integrity of the program and its assets. The Department began transitioning the portfolio to an asset management model in 2007. As asset managers, PHAs are required to perform annual inspections of their units to make certain that they remain in a decent, safe and sanitary condition and ensure that the agency and its properties are compliant with all applicable Federal, state and local safety codes. In addition to conducting their inspections the agency must submit to HUD's physical inspections process as part of HUDs ongoing assessment of the properties physical condition. PHAs must practice good stewardship over the Federal resources provided to their agency and submit annual audited and unaudited financial statements to HUD, which also become part of HUDs assessment of PHA performance under the Public Housing Assessment System (PHAS) which is used to evaluate PHA performance on an annual basis.

Beyond conducting standard maintenance and preventative maintenance activities, PHAs must prioritize and plan for the long term capital needs and viability of their properties. Though substantially limited in its ability to meet the estimated capital needs backlog of up to \$26 billion, the Capital Fund serves as a PHAs primary resource for addressing capital needs and accrual. In addition, PHAs can leverage the Operating Funds under the Operating Fund Financing Program to pay the debt service associated with modernization and development activities, including mixed-finance development.

Eligible uses of Public Housing Operating Fund subsidy include, but are not limited to, the following program activities:

1. Maintenance and management of public housing units;
2. Energy costs associated with public housing units;
3. Routine and preventative maintenance;
4. Anticrime and antidrug activities, including the costs of security;
5. The provision of supportive services to residents, including service coordinators;
6. Support for resident participation activities, including resident councils so that residents can have a voice in management and policy setting at the PHA;
7. Insurance;

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8. Debt service that may have been incurred to finance the rehabilitation and development of public housing units; and
9. Operating support for public housing units within mixed finance projects.

Moving-to-Work

In addition to its standard program operations, several PHAs operate their public housing program under a Moving- to-Work (MTW) arrangement. MTW is a demonstration program that provides PHAs the opportunity to design and test innovative, locally designed strategies that use Federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. MTW gives PHAs exemptions from many existing public housing and voucher rules and more flexibility with how they use their Federal funds. MTW PHAs are expected to use the opportunities presented by MTW to inform HUD about ways to better address local community needs.

The MTW program is authorized by Section 204(a) of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P.L. No. 104-134) (MTW statute). The 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 1937 Act, provided that the MTW agency 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.

Several MTW agencies have used their ability to combine funds for both the development and rehabilitation of affordable units. In most instances, these MTW agencies have utilized their combined funds to address capital needs and thus extend the useful life of its Public Housing properties. Some have augmented Replacement Housing Factor Funds, Low-Income Housing Tax Credits and other funds to provide gap financing for mixed-finance developments. The Department is seeking to leverage the best practices learned through the MTW experience into the traditional public housing program.

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Staffing

FTE	2011 Actual	2012 Estimate	2013 Estimate
Headquarters	213	211	214
Field	<u>276</u>	<u>276</u>	<u>293</u>
Total	489	487	507

Twelve additional staff is requested in fiscal year 2013.

Homelessness Initiative

As a pivotal United States Interagency Council on Homelessness (USICH) partner in the effort to prevent and end homelessness, the Department is looking beyond its traditional programs that directly address homelessness, in order to expand on the opportunities within the rental assistance programs, both Public Housing and Tenant Based Rental Assistance, to serve those who are homeless, near homeless or at risk of becoming homeless, including Homeless Veterans. As part of our efforts to better understand the issue and the opportunities, we have begun mining our internal systems to better know how many homeless persons PHAs currently serve. What we understand now is that housing authorities do a lot to prevent homelessness within their communities and we must do a better job of capturing the data, providing guidance about reporting this information and the flexibilities that currently exists to serve these households, and provide technical assistance and best practices more broadly.

Across the Public Housing and Housing Choice Voucher program offices, we have committed staff on an ongoing basis to support this initiative. These staff supported the initial scoping of work related to the USICH and the Department’s Annual Performance Goal (APG) to reduce homelessness. The Department will be conducting regional meetings with PHAs and their continuum of care partners to highlight best practices and successful local initiatives.

In addition to organizing and holding meetings, the Department must provide technical assistance and guidance to PHAs in support of the Homelessness Initiative. As a product of the meetings with practitioners, the Department should also be prepared to develop guidebooks to share best practices in support of HUD’s APG. We are in the beginning years of a long term goal to end homelessness. This will require ongoing monitoring of the effectiveness of our current programs, technical assistance to support PHAs in their work and sufficiently report our progress to USICH, as contributors to the national initiative.

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Energy and Sustainability Initiatives

One of the Department's Agency Performance Goals (APG) is to complete cost effective energy, green and healthy retrofits (APG 4). The Public Housing Program's Energy Performance Contracting Program (EPC) contributed nearly half of the 119,965 Public and Indian Housing (PIH) energy efficient units over a two year period, which helped the Department exceed its APG 4 goal and resulted in 201,444 energy, green and healthy retrofit units overall. Once American Recovery and Reinvestment Act (ARRA) production is complete, the EPC program will produce the lion's share of all of the Department's affordable energy efficient units.

Working with PHAs to develop innovative and actionable performance contracts has become more challenging given the fact that a good majority of large agencies have already implemented an EPC and addressed the "low hanging fruit" and implemented energy conservation measures. Continuing to increase the supply of energy efficient units will require technical assistance and policy guidance as well as exploiting opportunities among underserved markets. The Department's strategy to achieve its targets includes conducting regional conferences to increase PHA awareness of the program's flexibility and current guidance, as well as examining opportunities for the Department to grant increased flexibility within our current statutory and regulatory framework.

The approval and monitoring associated with the EPC program has increased in complexity as new energy conservation measures emerge and energy companies and PHAs push the possibilities in order to transform the Public Housing program's aged housing stock. Success in their efforts will improve the quality of life among families served, leverage current program resources to reduce their carbon footprint and replace dated systems, and will result in long-term savings as utility consumption decreases.

HUD Monitoring, Assessment and Technical Assistance

Several offices within the Office of Public and Indian Housing contribute to the operation, ongoing monitoring and providing technical assistance for the Public Housing program. Adequate staff resources are necessary to conduct robust monitoring and assessment related to program compliance, the physical integrity of the housing stock, and the financial sufficiency and stewardship of Federal resources. The Department provides technical assistance necessary to support Federal affordable housing assets across the nation and territories that provide assistance to over 1 million vulnerable families.

In addition to developing policies, providing guidance and technical assistance to PHAs the Department must address all aspects of financial management within the Public Housing program including the implementation of project-based accounting and asset management, the management and monitoring of Operating Fund subsidy, and processing \$4.524 billion in operating subsidies and nearly \$2 billion in capital funds. Specifically, staff develops, implements, manages, and monitors all aspects of the Public Housing operating subsidy from calculating eligibility, updating financial management policy related to the use of funds, insurance requirements and investments activities, as well as establishing financial controls. Other associated duties for Public Housing staff

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include developing fiscal management policy, implementing project-based accounting and asset management, and reviewing and approving Operating and Capital Fund Financing proposals as well as providing technical assistance for Energy Performance Contracting proposals, and validating the measurement and verification of energy savings to ensure that incentives have been earned.

Public Housing Program staff in both Headquarters and Field Offices ensure the effective use of accurate, timely and reliable information by which to assess the condition of HUD's Public Housing portfolio. Field Office staff especially plays a critical role in monitoring for compliance, providing expert technical assistance, reviewing proposed changes to the Public Housing stock, and collecting data from PHAs. Data compiled by staff helps to ensure safe, decent and affordable housing and helps to restore public confidence by identifying waste, fraud and abuse of Federal dollars. This data allows PHAs to be better managers and stewards of the Public Housing inventory and allows HUD to better identify potential problem situations for PHAs.

HUD is engaged in several priority initiatives to ensure the long term preservation and sustainability of the public housing portfolio and that grantees are good stewards of Federal resources. A few key initiatives include:

Financial and Physical Assessment Support

Vital to the successful operation of the public housing programs are the duties performed by the Real Estate Assessment Center (REAC). In addition to managing all information technology needs of PIH and the Public Housing program, the REAC;

- Inspects over 13,000 properties to assure decent, safe and sanitary housing.
- Processes and analyzes over 30,000 financial statements to assure compliance; with statutory programmatic requirements and ensure the financial solvency of HUD funded properties;
- Performs computer matching activities to eliminate fraud, waste and abuse in HUD's rental assistance programs;
- Responds to over 130,000 technical assistance calls and emails from internal and external stakeholders;
- Develops and implements all relevant policies and procedures in the administration of the Operating Fund
- Spearheads efforts on Public Housing salary reform, collecting and analyzing compensation levels to promote transparency and to enhance oversight compensation of PHA staff;
- Participates in the White House Interagency Rental Policy Working Groups that seek to standardize inspection and management standards across Federal agencies which provide housing, including HUD, The Department of Agriculture and the Veteran's Agency.

For fiscal year 2013, the Department proposes \$15.345 million for Financial and Physical Assessment Support for Rental Housing Assistance programs. Assessment activities are primarily done by the Real Estate Assessment Center (REAC) which provides the

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Office of Housing and the Office of Public and Indian Housing (PIH) with timely and accurate assessments of HUD's real estate portfolio using physical and financial management assessments. Additional financial and physical assessments are done to support field offices' activity. To make the use of HUD's data actionable, PIH has developed a Portfolio Management Tool that leverages the data from HUD's systems. Once the tool is installed in a field office, we anticipate that it will reduce staff time devoted to gathering data to support portfolio management and increase efficiencies. Field Office staff will be better able to organize their work efforts and prioritize their technical assistance to manage risk, provide early assistance and intervention to keep PHAs from falling into "Troubled" status.

The Office of Public and Indian Housing – Real Estate Assessment Center (PIH-REAC) Physical Assessment Subsystem (PASS) manages the physical assessment protocols required to evaluate the overall physical condition of PIH PHA projects and Multi-Family (MF) properties that receive assistance, or are insured under the FHA mortgage insurance programs. The physical condition of properties in which HUD has a financial interest, such as those mentioned above, are evaluated through periodic inspections conducted by independent contract inspectors and quality assurance inspectors that are certified in the reporting of physical condition using HUD's Uniform Physical Condition Standards (UPCS). REAC is responsible for inspecting the physical condition of approximately 30,000 multifamily properties and 7,200 public housing projects. The inspection program is to ensure that housing provided by HUD is in decent, safe, and sanitary condition.

The Physical Assessment Subsystem (PASS) trains and certifies inspectors; coordinates the procurement of inspections for MF assisted properties and PHA projects; ensures appropriate inspection scheduling for both PHA and MF properties; provides property specific on-line reporting of UPCS inspection results through HUD Secure Systems; provides quality assurance reviews for 100 percent of inspections conducted; arranges for correction and rescheduling of inspections that are deemed outside of standard, incomplete or deficient; calculates all property inspection scores; and responds to technical review and database adjustment appeal requests from PHAs and MF properties.

The PIH-REAC Financial Assessment Subsystem for Public Housing (FASS-PH) is responsible for assessing the financial condition of approximately 3,100 PHAs that receive HUD funds to manage and operate units of public housing for low-income residents as part of the PHAS assessment system. In addition to evaluating financial health, FASS-PH conducts various analyses to aid in the improvement of PHAs' financial outlook. These functions assist HUD in distinguishing between PHAs that are financially stable and compliant from those that present a high degree of financial risk to HUD. FASS-PH helps measure the financial condition of PHAs and assesses their ability to provide safe and decent housing. FASS-PH also provides PIH-REAC with a complete database of PHAs' financial data. The system provides PHAs with the ability to submit financial information to PIH-REAC via a secure Internet connection. The Department also verifies the income of Public Housing residents to ensure housing subsidies are paid accurately.

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The assessments performed by the Department and the data provided to other program areas renew public confidence in government by helping to make decent, safe, and sanitary housing a reality for millions of American families.

Insufficient staff and funding will place the Department at risk for failing to meet congressionally mandated requirements in accordance with statutes and regulations. Required financial submissions will not be processed timely and accurately. When audited, we run the risk that there may be significant audit findings due to processes that are not functioning within established process control parameters.

Troubled PHA Recovery and Sustainability (PHARS) Initiative

The Department has launched the PHA Recovery and Sustainability (PHARS) Initiative, a place-based approach to recovering troubled and substandard PHAs designated under PHAS that focuses on troubleshooting systemic issues in governance and financial management, and working with community leaders to implement curative action plans designed for a comprehensive and sustainable recovery. The sustainable recovery of troubled PHAs is a critical issue for the Department given the risks and impacts to the local communities' ability to satisfy its affordable housing priorities, the vulnerable assisted families served and the preservation of affordable housing assets. The analysis shows that troubled public housing authorities tend to perform poorly in two areas – physical condition and finance. The process is holistic, cooperative and tailored to each PHA's level of need. The cooperation and collaboration with local stakeholders is key to making clear that the PHA is a local entity, not Federal, and that choices it makes are determined at the local level. HUD partners with these entities to provide expertise, resources and technical assistance as appropriate to ensure the successful implementation of HUD programs in a way that supports the community's ability to address their local housing priorities.

3. Why is this program necessary, and what will we get from the funds?

The fiscal year 2013 budget comes at a time of tightly constrained resources, and it reflects this fact. The Administration is focused on ensuring that America wins the future and makes strategic investments in our communities, but also takes responsibility for our deficit. For HUD, that meant developing a budget consistent with three core principles:

1. Continuing to provide critical support for the housing market, while bringing private capital back into the market;
2. Protecting current residents and improving the programs that serve them; and
3. Proposing no new initiatives, while continuing to invest in initiatives that have been part of our budget for the past 2 years and are critical to winning the future.

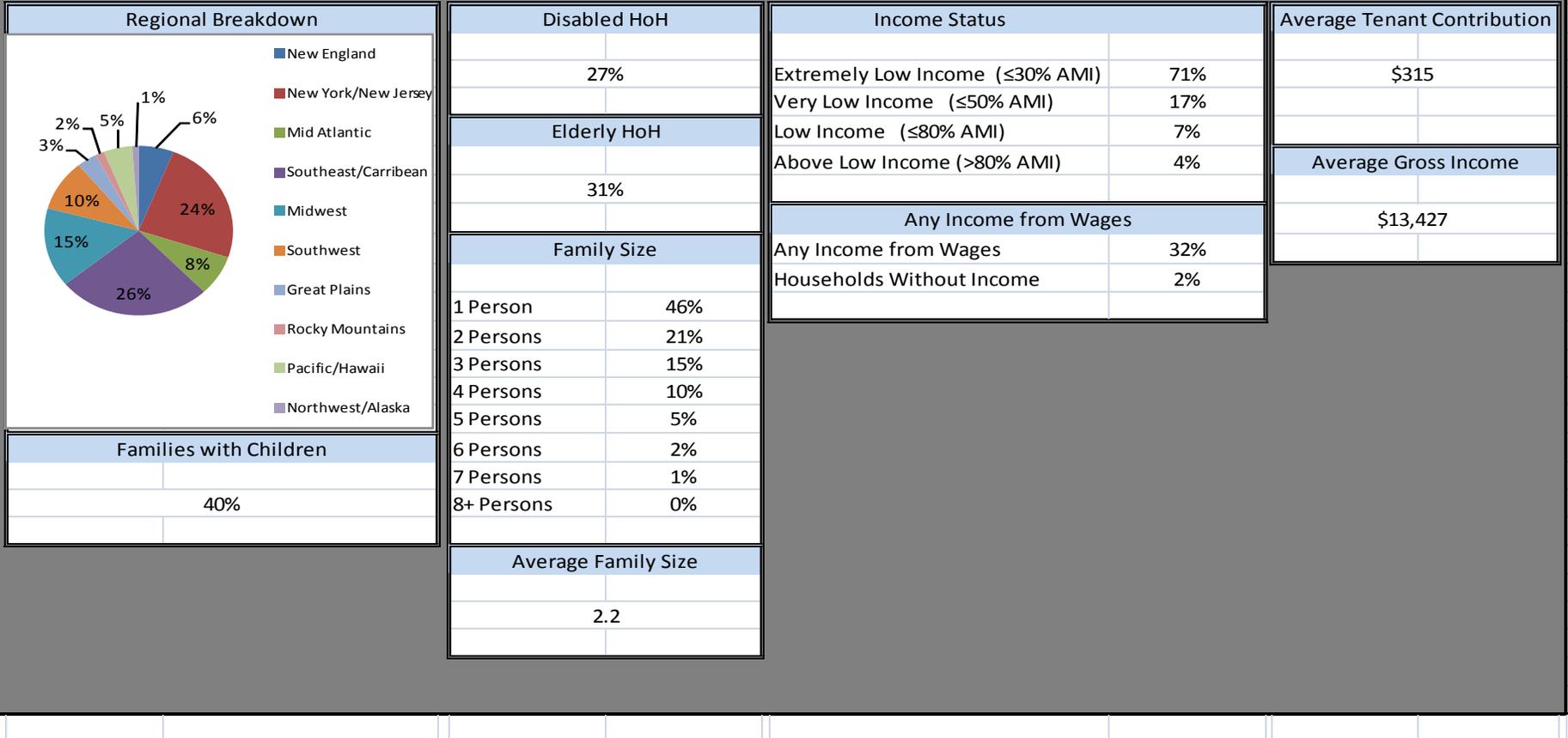
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We must invest in affordable housing, because the demand for such housing has surged. As a consequence of the recent recession and foreclosure crisis, increasing numbers of families face shrinking household incomes and a lack of employment opportunities. The number of unassisted renters paying at least 50 percent of their income toward housing is at an all-time high. From 2007 to 2009, the number of households in this “worst case” category increased by more than 20 percent — the largest increase since we began tracking renters’ housing cost burden. Wait times for housing assistance are also at an all-time high. As a result, many communities have simply closed their waitlists.

The public housing program is among the few sources of deeply affordable rental housing; some 1.2 million households (2.6 million individuals) reside in public housing. The housing ranges from low-density, scattered-site housing to multifamily dwellings and is located in a broad range of communities and neighborhoods across the country, including rural, suburban, and central city locations. Without the stability that public housing provides, families served by the program would face a tremendous burden in housing costs that could eventually become insurmountable, resulting in homelessness. As the following table shows, more than 70 percent of households living in public housing have incomes less than 30 percent of the area median income (AMI); nearly 60 percent are elderly or disabled, or both; and 40 percent are families with children.

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Public Housing Tenant Characteristics 2011



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The public housing program serves some of the most vulnerable renter households in the nation. The vast majority of public housing residents cannot afford to pay enough toward rent to cover the costs of operating a property, even absent debt service. If the households cannot pay enough to cover operating costs, then the owners cannot maintain the properties absent subsidy. Subsidy provided through the Operating Fund program makes it possible for PHAs to maintain their public housing properties. Absent operating subsidy resources, the affordable housing units would be lost, perhaps not immediately but over time. Residents would be at risk of homelessness. Local communities would face the challenge of responding to the enhanced demand for deeply affordable rental housing, facing tough decisions about the allocation of other — already scarce — Federal, state, and local resources.

In the current economic climate, the need for the public housing program is heightened. Faced with shrinking household incomes and a lack of employment opportunities, many Americans struggle to make ends meet; the “Worst Case Housing Needs 2009 Report to Congress” reveals the effect on housing affordability. The number of unassisted households who pay more than 50 percent of their income toward rent or live in severely inadequate conditions — or both — increased by more than 20 percent from 2007 to 2009, to more than 7 million renters.

Given that the request funds housing authorities at 90 percent of the Operating Fund formula estimated eligibility, the Department intends to provide PHAs with greater flexibility in the use and administration of existing resources, as described earlier. In this climate of heightened demand for housing and constrained resources, the Department believes that additional flexibility will create opportunities for PHAs to innovate in fulfilling their basic mission and in responding to local housing need.

Public housing is an essential piece of the housing market that provides support for both residents and the local economy. Wage-earners residing in public housing earn too little to afford market-rate housing, yet they are contributing members of the local communities in which they reside. The program also conveys direct and indirect benefits on those communities in the form of employment opportunities, either at the PHA or associated with the provision of services to residents, and in terms of the goods and services purchased by PHAs.

4. How do we know that this program works?

Among the findings of the “Worst Case Housing Needs 2009 Report to Congress” is that, absent housing assistance, at least 68 of every 100 currently assisted families would experience worst case housing needs.¹ This means that an estimated 707,000 families currently residing in public housing would otherwise fall into the worst-case housing needs category. While there are other forms of subsidized housing, the public housing program is among the very few that serve extremely low-income households. So while from

¹ McClure, Kirk; Reduction of Worst Case Housing Needs by Assisted Housing; U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Assisted Housing Research Cadre Report; February 2011; http://www.huduser.org/portal/publications/pubasst/reduction_wchn.html.

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2007 to 2009 there was an overall net increase of 694,000 rental units in the housing market, the number of units affordable to extremely low-income families declined by 570,000 units.²

The Department has been working toward several goals identified in its Strategic Plan. While achievement of these goals depends on strong performance across several programs, adequate funding of the public housing program is critical to success in several key areas:

- “Meet the Need for Quality Affordable Rental Homes” (Goal 2)
- “Utilize Housing as a Platform of Improving Quality of Life” (Goal 3), and
- “Build Inclusive and Sustainable Communities Free From Discrimination” (Goal 4).

Among the subgoals under Goal 2 is to “expand the supply of affordable rental homes where most needed.” By the end of 2013, the public housing program is expected to serve additional families through new development under the American Recovery and Reinvestment Act, the implementation of policies intended to reduce vacancies and increased monitoring, as well as other development and rehabilitation activities. As part of the Department’s goals in 2010 and 2011, the Department increased occupancy within the Public Housing program by over 21,000 additional families using these strategies. Our goal in 2013 is to maintain this higher occupancy rate and not lose ground as we continue to maximize this important affordable housing resource.

The Department intends to take measures to meet this goal that will not only have the benefit of serving more families, but will also improve the overall management and oversight of the program. While working toward identifying goal targets, the Department completed a thorough analysis of its policies, a comprehensive review of data, and other steps needed to increase capacity building. Moving forward, this new information will enable the Department to be more confident in linking performance standards to the budget request.

Additionally, the HUD will continue its work to increase the supply of energy efficient affordable housing units and promote green and sustainable housing practices.

By 2011, HUD exceeded its prior goal to complete cost-effective energy retrofits by more than 63,000 units and completed over 120,000 public housing units. Not only do these energy retrofits strengthen the value of the project and help toward maintaining its long-term viability, but introducing energy efficient retrofits helps PIH to reduce operating costs over time.

² Rental Market Dynamics: 2007-2009; U.S. Department of Housing and Urban Development, Office of Policy Development and Research, American Housing Survey; May 2011; http://www.huduser.org/portal/datasets/cinch/cinch09/Rental_Mrkt_07-09.pdf.

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Metrics used to measure the performance of Public Housing include the Enterprise Income Verification (EIV) System and the Public Housing Assessment System (PHAS), which collectively measure the level of improper payments, physical state of units, and the financial condition of the organizations. With the enactment of new statutory requirements for agencies to implement to reduce improper payments, HUD continues to be the leader in the reduction of improper payments. From fiscal year 2000 through fiscal year 2009, HUD has reduced improper payments within its rental housing assistance programs (RHAP) from \$3.40 billion to \$0.925 billion, which represents an improper payment rate of 3.1 percent of HUD's RHAP outlays. HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments and ensure that the right benefits go to the right people. HUD has set a goal to reduce improper payments to 3.0 percent of the total dollar amount of program outlays for fiscal years 2010, 2011, and 2012. To ensure attainment of the aforementioned goals, HUD is focusing on the PHAs, owners, management agents, and contract administrators' compliance with mandated EIV system use to further reduce income reporting errors.

While these tell a story of overall historical success for the program, the Department recognizes it has had some difficulties in the past regarding timely and accurate data. Accordingly, the Department has undertaken extensive efforts towards 'cleaning' its data within the Public Housing program. The primary source of the aforementioned data regarding the Public Housing program is the PIH Information Center (PIC) system. The Department has been working towards clarifying definitional boundaries in the PIC system through the development of stricter protocols, particularly for analyzing vacancy data. Program monitoring directives such as this provide the greatest potential for success in optimizing Public Housing funds. In order to effectively use the PIC system, data entered into the system must be true and accurate. Thus, the Department will continue to work to validate data entered into the PIC system on a routine basis, to guarantee the quality and reliability of the data, which drives policy and program decisions at the national level.

Additionally, within its programs HUD intends to identify other long-term strategies to ensure Federal resources are being maximized to meet affordable housing in local communities while finding other ways to streamline programs and eliminate any redundancy in programs.

Public Housing Operating Fund

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

<u>Budget Activity</u>	<u>2011 Budget Authority</u>	<u>2010 Carryover Into 2011</u>	<u>2011 Total Resources</u>	<u>2011 Obligations</u>	<u>2012 Budget Authority/ Request</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2013 Request</u>
Operating Subsidy	\$4,601,778	...	\$4,601,778	\$4,600,004	\$3,941,850	...	\$3,941,850	\$4,524,000
Transformation Initiative	14,970	...	14,970	...	...	...	...	...
PHA Financial Hardship Assistance .....	...	...	...	...	20,000	...	20,000	...
Total	4,616,748	...	4,616,748	4,600,004	3,961,850	...	3,961,850	4,524,000

Public Housing Operating Fund

PUBLIC AND INDIAN HOUSING PUBLIC HOUSING OPERATING FUND Appropriations Language

The fiscal year 2013 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

For [2012] 2013 payments to public housing agencies 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, of which \$20,000,000 shall be available until September 30, 2013] \$4,524,000,000: Provided, That in determining public housing agencies', including Moving to Work agencies', calendar year [2012] 2013 funding allocations under this heading, the Secretary shall take into account the impact of changes in minimum rents, flat rents, and medical expense thresholds on public housing agencies' [excess operating fund reserves, as determined by the Secretary: Provided further, That Moving to Work agencies shall receive a pro-rata reduction consistent with their peer groups: Provided further, That no public housing agency shall be left with less than \$100,000 in operating reserves: Provided further, That the Secretary shall not offset excess reserves by more than \$750,000,000: Provided further, That in implementing such allocation reductions, the Secretary shall establish a process by which public housing agencies can appeal the initial allocation amounts and the Secretary shall consider adjustments based on such factors, including prior funding reservations, commitments related to mixed finance developments, or reporting errors: Provided further, That the Secretary shall notify public housing agencies of such process and what documentation may be required as part of such appeal: Provided further, That following the appeals process established under the previous two provisos, the Secretary shall make final allocations: Provided further, That of the amount provided under this heading up to \$20,000,000 may be set aside to provide assistance to any public housing authority who encounters financial hardship as a direct result of an excess reserve offset applied to an allocation of funding under this heading: Provided further, That the Secretary shall provide flexibility to public housing agencies to use excess operating reserves for capital improvements] formula income levels. (Department of Housing and Urban Development Appropriations Act, 2012.)

Changes from 2012 Appropriations

Provides taking into account the impact of changes in minimum rents, flat rents, and medical expense thresholds on public housing agencies' formula income levels.

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

Eliminates the flexibility to prorate PHAs with insufficient reserve-level data.