



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000

JUL 27 2007

ASSISTANT SECRETARY FOR  
PUBLIC AND INDIAN HOUSING

Dear Executive Director:

I am writing this letter to inform you of a number of important developments related to the Capital Fund program. The Department is continuing to take steps to improve the accuracy of its allocation of Capital Funds and expects to significantly accelerate its distribution of funding next fiscal year. In anticipation of the shift to an accelerated schedule for allocating Capital Funding, the Department will initiate next year's Capital Fund data certification process before the end of this calendar year (in the fall of 2007) and will not award performance reward funding when it awards fiscal year 2007 Capital Fund grants.

The Department has just completed a new Capital Fund data certification process this year. The process confirmed that the vast majority of the existing data in the Department's Public Housing Information Center (PIC) database is accurate. In limited instances the certification process highlighted data discrepancies and gave PHAs, Field Offices and Headquarters staff the necessary information to correct the data the Department uses to calculate the Capital Fund formula. The process also facilitated changes in the PIC data: some of these changes were implemented before the certification deadline while others continue to be processed after the deadline. With the successful implementation of the certification process and the automation of the Capital Fund formula, the Department is now in a better position to accelerate its processing of Capital Funds once it receives its annual appropriation.

There is an aspect of the Capital Fund formula that requires information outside of the PIC system: the performance reward factor described at 24 CFR 905.10(j). The performance reward factor portion of the Capital Fund formula regulation gives the Department the discretion to award limited additional funding to PHAs designated as high performing under the Public Housing Assessment System (PHAS)<sup>1</sup>. In fiscal year 2006, the Department was unable to process updated PHAS scores in time to generate a list of high performing PHAs prior to awarding the initial share of Capital Funding. As a result of its difficulty in finalizing the high performer list, the Department had to wait until this past May (eight months into the next fiscal year) to complete the award of fiscal year 2006 funding.

Although the situation the Department encountered in 2006 was unusual, even if the Department had completed its PHAS assessments on a more routine schedule, it would not have been soon enough to award Capital Funds earlier than the last few months of the federal fiscal year. In order to facilitate timely distribution of Capital Funding in the coming years, the Department has decided only for this year's Capital Fund allocation not to include performance

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<sup>1</sup> The formula regulation states that "PHAs that are designated high performers . . . **can** [emphasis added] receive a performance bonus . . ." (See 24 CFR 905.10(j)(1)) The Department believes that the regulation's use of the term "can" indicates that the Department is not required to award a performance bonus.

reward funding. In making this decision, the Department considered using the same set of high performer designations to support multiple years of funding; however, it has concluded that it is not authorized to reuse the same set of designations in this instance.

The Department believes that PHAs will substantially benefit from receiving Capital Fund grants earlier in the fiscal year. In most of the nation, the construction season is concentrated in the warmer months. Funds made available too late in the year cannot be used until the next construction season. Once the Department makes funds available early in the fiscal year, PHAs will be able to carry out modernization projects in the same year that the Department makes funds available. Not only will residents benefit from modernization sooner, but also PHAs will be able to obligate their funds earlier (and therefore be less likely to be subject to sanctions under Section 9(j) of the United States Housing Act of 1937 for untimely obligation of Capital Funds).

The Department will be announcing the availability of fiscal year 2007 Capital Fund grants on the Capital Fund website in August. The website is located at: [www.hud.gov/offices/pih/programs/ph/capfund/index.cfm](http://www.hud.gov/offices/pih/programs/ph/capfund/index.cfm). As noted earlier, no performance reward funding will be included with the fiscal year 2007 Capital Fund grants. The Department plans to include performance reward funding when it awards fiscal year 2008 Capital Fund grants.

Thank you for your patience as the Department takes steps to accelerate the availability of Capital Funds in the future while simultaneously improving the accuracy of its calculation of the Capital Fund formula. The Department will continue to work with its partners to improve the Capital Fund program in the future.

Sincerely,



Orlando J. Cabrera  
Assistant Secretary