

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2014 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>
2012 Appropriation	\$3,961,850	...	...	\$3,961,850 ^{a/}	\$3,957,245	\$4,219,518
2013 Annualized CR	3,986,097	\$4,258 ^{b/}	...	3,990,355	3,990,355	3,923,000
2014 Request	<u>4,600,000</u>	<u>...</u>	<u>...</u>	<u>4,600,000^{c/}</u>	<u>4,600,000</u>	<u>4,399,000</u>
Program Improvements/Offsets	+613,903	-4,258	...	+609,645	+609,645	+476,000

a/ Excludes x-year funds in the amount of \$2.9 million that will be returned to the Treasury, and is unavailable as a resource.

b/ Includes carryover amount for PHA financial hardships.

c/ Total resources and obligations for fiscal year 2014 exclude an estimated \$32 million transfer from the Public Housing Operating Fund for implementation of the Rental Assistance Demonstration (RAD). This number also includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent of Budget Authority.

1. What is this request?

The fiscal year 2014 Budget request provides \$4.6 billion for the Public Housing Operating Fund, which is an increase of \$638 million from the fiscal year 2012 appropriation. It also represents a 90 percent proration. This request will allow the Department to continue to serve some 1.1 million households (2.6 million individuals) by providing operating subsidy payments to over 3,100 Public Housing Authorities (PHAs) for the operation, management, and maintenance of publicly owned affordable rental housing throughout the United States and its territories.

The increase in the request, in large part, reflects the use of \$750 million in fiscal year 2012 reserves to fund the Public Housing Operating Fund. The Department proposes to extend current statutory authority provided to agencies with fewer than 250 public housing units, to all PHAs regardless of program size and implement this flexibility through publication in the Federal Register.

The fiscal year 2014 Budget request increase of \$638 million from the fiscal year 2012 appropriation reflects funding comparable to pre-offset¹ levels and inflation adjustments for Project Expense Levels (PELs), Utility Expense Levels (UELs), and tenant incomes and

¹ The 2012 budget was funded at a level \$1 billion below eligibility. This was due primarily to a \$750 million offset, structured as a targeted one-time reduction to operating reserves.

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their corresponding rent contributions. 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 5.3 percent. The inflation factor for tenant income (-0.59 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. Eligible Unit Months (EUMs) were derived from the most recent Public Housing unit occupancy data reflected within HUD's systems and adjusted for anticipated changes in the inventory expected to become effective in 2014. The increase in estimated eligibility is due primarily to inflation factors, but is mitigated by an overall loss in units through demolitions and dispositions out of the inventory.

This request also reflects \$63 million in anticipated savings in fiscal year 2014 from changes to the flat rent policy (\$40 million) and an increase in the medical expense exclusion threshold from 3 to 10 percent (\$23 million). The two proposals were also included in the fiscal year 2013 President's Budget request.

The Department will use its statutory authority under the Consolidated and Further Continuing Appropriations Act of 2012 (Public Law 112-55) to transfer amounts from the fiscal year 2014 Operating Fund and Capital Fund appropriations to the TBRA or PBRA accounts to fund renewal costs for public housing units converting under the Rental Assistance Demonstration (RAD) in calendar year 2013. The Department currently estimates that \$32 million from the Operating fund and \$11.2 million from the Capital Fund will need to be transferred to the TBRA and PBRA accounts in fiscal year 2014 for this purpose (approximately \$21.6 million to each account). However, the precise amount will be determined based on the number and characteristics of units that actually complete conversion in calendar year 2013. Subsequent budget year requests will reflect the RAD renewal needs in the PBRA and TBRA accounts, as actual numbers become known.

In fiscal year 2014, the Department renews its request for the Transformation Initiative Fund, which provides the Secretary the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. This program may transfer up to 0.5 percent or \$15 million, whichever is less, to the Transformation Initiative Fund for the operation of a second-generation Transformation Initiative (TI2). More details on TI2 and its projects are provided in the justification for the Transformation Initiative Fund account.

Key outcomes of the Operating Fund program are:

1. Increasing occupancy in public housing.
2. Decreasing energy costs.
3. Leveraging Federal resources.

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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, as well as the working poor. In addition, Public Housing remains a key component of the overall effort to eliminate homelessness, including veteran's homelessness.

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 CFR 990. A 2003 study by the Harvard University Graduate School of Design (the "Harvard Cost Study") provided the basis for negotiations. The Harvard Cost Study examined Public Housing operating expenses at a well-run public housing authority relative to Federal Housing Administration (FHA) insured real-estate based affordable housing. When combined with tenant rents and funded at 100 percent of formula, this subsidy 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 Public Housing program provides deeply affordable, publicly owned housing units. It is an essential piece of the housing market that provides support for some of the nation's most vulnerable renters as well as local economies. 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 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.

The Public Housing program serves many of the most vulnerable renter households in the nation with 71 percent of all assisted households having incomes that fall below 30 percent of their local Area Median Income (AMI) or considered extremely low-income. The vast majority of public housing residents cannot afford to pay enough toward rent to cover the costs of operating a property. The Operating Fund makes it possible for local communities to maintain their public housing properties. Absent operating subsidy resources, nearly 1.1million affordable housing units would be lost over time. Residents would be at risk of homelessness. Local

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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.

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.

PHAs must undertake a significant level of administrative and program implementation requirements that go well beyond the activities that other real estate owners and operators, including those in other HUD supported multifamily programs, must perform. These requirements are required by both the 1937 Housing Act as well as program regulations. The Department is focused on identifying meaningful ways to reduce the level of administrative burden and streamline program requirements in ways that would not undermine accountability or program outcomes.

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 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 HUD's ongoing assessment of the properties physical condition. PHAs must practice good

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stewardship over the federal resources provided to their agency and submit annual audited and unaudited financial statements to HUD, which also become part of HUD's 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.

Public Housing Operating Funds are used to support:

1. Day-to-Day management and operations for public housing including intake and maintenance staffs;
2. Routine and preventative maintenance;
3. Energy costs associated with public housing units;
4. Anti-crime and anti-drug activities, including the costs of security;
5. Operating costs for public housing units within mixed finance projects that are owned and operated by private owners;
6. Supportive services to residents, including service coordinators;
7. Resident participation activities, including resident councils so that residents can have a voice in management and policy setting at the PHA;
8. Insurance; and
9. Debt service incurred to finance the rehabilitation and development of public housing units.

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.

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:

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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. The proposed fiscal year 2014 Budget enables HUD to continue the strategies that support the four major goals to prevent and end homelessness outlined below:

1. Build on past progress, end chronic homelessness by 2015;
2. Prevent and end homelessness for veterans by 2015;
3. Prevent and end family and youth homelessness by 2020; and
4. Set a path to ending all types of homelessness.

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 support of the Homelessness Initiative, the Department must also provide technical assistance to PHAs, and develop guidebooks to share best practices.

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 2-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 (Recovery Act) production is complete, the EPC program will have produced the lion's share of all of the Department's affordable energy efficient units.

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Working with PHAs to develop innovative and actionable performance contracts has become more challenging given that a good majority of large agencies have already implemented an EPC and addressed the “low hanging fruit” 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 small PHAs. The Department’s strategy to achieve its targets includes conducting regional communications to increase PHA awareness of the program’s flexibility and current guidance, providing technical assistance tools to facilitate EPC project planning and implementation among small agencies, as well as examining opportunities for the Department to grant increased flexibility within our current statutory 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, all while producing long-term savings as utility consumption decreases.

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 Budget proposes a substantial expansion of the MTW program (see below).

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 Operating Fund 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;

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- Spearheads efforts on Public Housing salary reform, collecting and analyzing compensation levels to promote transparency and to enhance oversight compensation of PHA staff; and
- 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.

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

In February 2013, HUD released a summary of its biennial Worst Case Housing Needs Report. HUD found that the number of very low-income renters facing severe housing problems continues to grow. In 2011, nearly 8.5 million households had worst case housing needs, up from 7.1 million in 2009. This represents a 19 percent increase since 2009 and 43 percent since 2007. Worst case needs are defined as renters with very low incomes (below half the median in their areas) who do not receive government housing assistance and who either paid more than half of their monthly incomes in rent, lived in substandard conditions, or both. Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas. In addition, large numbers of worst case needs were also found across various household types including families with children, senior citizens, and persons with disabilities.

The rise in hardships among renters is due to substantial increases in rental housing demand and weakening incomes that increased competition for already-scarce affordable units. Increases in demand were so great that they overwhelmed increases in supply of units affordable at incomes below 50 percent of AMI. As a result, the gap between the number of affordable units that were available for very low-income renters and the number of renters who need these units not only failed to improve in percentage terms, but worsened in absolute terms. In particular, conversion of owner-occupied to rental units following foreclosure helped offset some of the sharp increase in rental demand. The stock of owner-occupied housing decreased by almost 760,000 units during 2009-2011 while the rental stock increased by 3.33 million units (8.4 percent). The 3.47 million new renter households absorbed all the net increase of rental units while also occupying 140,000 previously vacant units. Despite these substantial shifts in supply, the number of affordable and available rental units decreased to 65 units per 100 very low-income renters and 36 units per 100 extremely low-income renters. (U.S. Department of Housing and Urban Development, Office of Policy Development and Research, February 2013).

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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.

As of the end of fiscal year 2012, the Department increased public housing occupancy to more than 1.091 million units, up more than 9,300 units year over year. 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 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).

Salaries and Expenses (S&E) and Full-time Equivalents (FTE) Request

Effective administration of the Public Housing Operating Fund is dependent on the operating resources requested in the S&E justification. For fiscal year 2014, \$69 million is requested to operate this program account. This is an increase of \$3.50 million from fiscal year 2012.

The Department requests funding for 508 FTE which equates to \$66.36 million for the Operating Fund Personnel Services. This is an increase of 3 FTE and \$2.20 million in funding from fiscal year 2012. The Department requests \$2.70 million in Non-Personnel Services funding for travel, contracts, training and other related operating expenses associated with the Operating Fund program, an increase of \$630 thousand from fiscal year 2012.

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Workload by Function

The Public Housing program staff workload is broken down into three major areas:

1. Oversight and Monitoring (321 FTE).
2. Program Support (154 FTE).
3. Program Administration (33 FTE).

Approximately 60 percent of the staff is dedicated to the monitoring and oversight for the Public Housing Operating Fund program, maximizing occupancy within the existing portfolio; ensuring units are decent, safe and sanitary; and PHAs utilize good program management practices and optimum uses of funds. This staff is also responsible for on-site and remote reviews of physical inspections, financial and operational information and conducting quality assurance reviews. In addition, HUD Field employees handle daily Public Housing customer-related inquiries from participants and regularly monitor data in key HUD systems such as PIH Information Center (PIC), Enterprise Income Verification (EIV), and the Financial Assessment System. They are the first-line responders to our 3,100 PHAs. They respond to requests for technical assistance and are responsible for ensuring PHAs are administering the Public Housing program in accordance with federal law and program regulations. Staff must review annual audits and OIG audits of PHA operations, as well as PHA Annual Plans (and any interim changes to those plans); they are also responsible for the performance measurement rating done as part of the Public Housing Assessment System (PHAS), including corrective action plans for improvements in PHA operations.

The remainder of the staff works on either the financial management or the policy development of the Public Housing program. Financial management of the Public Housing Operating Fund program includes forecasting the budgetary needs of the program, developing and preparing budget requests based on those forecasts, calculating and allocating subsidy funding in accordance with the formula, and evaluating PHA appeals for additional funding. Staff is also responsible for the commitment, obligation, and disbursement under cash management principles of more than \$4 billion in annual operating subsidy funding to more than 7,000 public housing developments at over 3,100 PHAs. Staff is responsible for developing good financial and risk management policies for PHAs, including the appropriate use and expenditure of reserve funds. This includes determining the amount of monthly disbursements of funding for each public housing development as well as the expenses associated with the operation and management of their properties. In addition, staff assure compliance through audits of financial statements to eliminate waste, fraud and abuse.

In the administration of special programs such as (but not limited to) Energy Performance Contracts (EPCs), headquarter and Field Office staff work with not only the PHA but with third-party partners crucial to the success of these contracts. Activities include working with PHAs and Energy Service Companies (ESCOs) to design energy conservation proposals that conservatively and

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accurately measure the level of savings that could be achieved by installing energy conservation measures (ECMs) that reduce water and energy consumption. Leveraging these savings allows local communities to reduce utility costs and address some of the \$26 billion in capital backlog within the housing portfolio. Program and policy development covers a wide range of activities, including program analytic support and daily program operations. The staff ensures that the HUD 5-year Strategic Plan and annual goals for the Public Housing Operating Fund program aligns with the policy development, planning activities, and performance metrics and milestones. They draft Public Housing regulations, notices, handbooks, and other guidance to implement statutory requirements and program policies, and develop training materials and provide training and technical assistance to field staff, PHA staff, Public Housing residents, and other program stakeholders in order to improve delivery of the program. The staff also coordinates on federal interagency initiatives to leverage resources. For example, staff participates in interagency working groups with colleagues from the U.S. Interagency Council on Homelessness (USICH) on efforts to end homelessness and work directly with PHAs and residents to ensure occupancy requirements, including Fair Housing laws, are being followed.

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Public Housing Tenant Characteristics 2012						
<p>Regional Breakdown</p> <p>Legend:</p> <ul style="list-style-type: none"> New England New York/New Jersey Mid Atlantic Southeast/Carribbean Midwest Southwest Great Plains Rocky Mountains Pacific/Hawaii Northwest/Alaska 	<p>Disabled Households</p> <p>27%</p>		<p>Ethnicity Characteristics</p> <p>Hispanic 24%</p> <p>Non-Hispanic 76%</p>		<p>Average Tenant Contribution</p> <p>\$321</p>	
	<p>Elderly Households</p> <p>31%</p>		<p>HoH Race Characteristics***</p> <p>White Only 51%</p> <p>Black Only 45%</p> <p>American Indian / Native American 1%</p> <p>Asian 2%</p> <p>Mix/Unknown 1%</p>		<p>Average Gross Income</p> <p>\$13,633</p>	
	<p>Family Size</p> <p>1 Person 46%</p> <p>2 Persons 21%</p> <p>3 Persons 15%</p> <p>4 Persons 10%</p> <p>5 Persons 5%</p> <p>6 Persons 2%</p> <p>7 Persons 1%</p> <p>8+ Persons 0%</p>		<p>Income Status****</p> <p>Extremely Low Income (≤30% AMI) 71%</p> <p>Very Low Income (≤50% AMI) 17%</p> <p>Low Income (≤80% AMI) 7%</p> <p>Above Low Income (>80% AMI) 4%</p>			
	<p>Families with Children</p> <p>40%</p>		<p>Average Family Size</p> <p>2.2</p>		<p>Any Income from Wages**</p> <p>31%</p>	
<p>Female Headed Households</p> <p>75%</p>						

Source: 2012 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

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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 real estate, including the private rental market, staff and utilities unequivocally represent the largest operating cost drivers. If PHAs are forced to cut operating expenses, jobs will 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 the demand for social services as previously employed households seek assistance.
- Longer periods of vacancy. Absent adequate funding to support unit turnover, maintenance resources including staffing and supplies, and admissions screening, units that become vacant will remain vacant for extended periods of time, depriving eligible families of housing and reducing the supply of affordable housing resources in local communities.
- 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 \$26 billion, the use of Capital Funds to support operations jeopardizes the long-term viability of these affordable housing units.
- Diminished community security. Public housing residents and families in the local community could be placed at risk if PHAs scale back on security which is supported by the operating subsidy.
- Diminished quality of life for residents. A reduction in operating resources would likely result in longer response times for maintenance and repair requests, could negatively affect the ability of the PHA to provide proper upkeep of common areas and property grounds, and compounded by the potential for reductions in security measures could reduce the quality of the living environment for program participants and neighborhood residents. In some instances, units may reach such a level of disrepair that they fall into a state of disrepair, obsolescence, and/or removal from the inventory thereby reducing the supply of affordable housing and leaving vulnerable families at risk of homelessness.
- 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.

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

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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.

4. How do we know this program works?

Among the subgoals under Goal 2 is to “expand the supply of affordable rental homes where most needed.” By the end of 2014, the public housing program is expected to serve additional families through the implementation of policies intended to reduce vacancies and increase monitoring and technical assistance being provided to PHAs, as well as other development and rehabilitation activities. As part of the Department’s goals in fiscal years 2011 and 2012, the Department increased occupancy within the Public Housing program by over 21,000 additional families using these strategies. Our goal in 2014 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, HUD will continue its work to increase the supply of energy efficient affordable housing units and promote green and sustainable housing practices.

In fiscal year 2012, HUD completed cost effective energy retrofits on more than 83,000 units, exceeding its goal of 75,670 units. Approximately 40,000 of these were public housing units. Not only do these energy retrofits strengthen the value of the project and help maintain its long-term viability, but introducing energy efficient retrofits helps PIH to reduce operating costs over time.

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 a key leader in the reduction of improper payments. From fiscal year 2000 through fiscal year 2009, HUD reduced improper payments within its rental housing assistance programs (RHAP) from \$3.40 billion to \$925 million, 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

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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 the mandated EIV system use to further reduce income reporting errors.

The Department has made extensive efforts in ensuring that the data within the Public Housing program is accurate. The primary source of data for 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. 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.

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.

Program Improvements

The Next Generation Management System (NGMS) initiative is a departmentwide initiative designed to reengineer current business models, processes, and IT infrastructure and operations across HUD's Rental Housing Assistance (RHA) programs, which include programs from the offices of Public and Indian Housing (PIH), Multifamily Housing (MFH), and Community Planning and Development (CPD). NGMS is intended to be a suite of robust technical tools designed to help HUD administer its rental assistance programs more efficiently, and bring the various work functions of these programs to modern standards, housed within a modern technical platform. This TI/IT initiative will fundamentally improve the business performance of HUD's rental assistance programs over several years. With modules in areas such as HUD operations, grantee operations, financial management, and business support, HUD's RHA business will become more fully refined and up-to-date with modern IT platforms and data architecture. Although HUD staff have maintained the ability to oversee and monitor RHA programs, as well as respond to requests for information, these processes are often exceedingly manual and inflexible to the demands of a data-driven government. NGMS will afford HUD staff, and eventually our grantees and other stakeholders, the ability to view data and information in operational real-time and to seamlessly integrate information from disparate data sources. Additionally, the implementation of NGMS improvements will allow for the reduction of errors in information and more efficiently inhibit the waste, fraud, and abuse of federal dollars. With better tools and better information, HUD staff and HUD grantees can become even more effective stewards of federal dollars and of rental assistance programs on which approximately 4.6 million families rely.

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Cross-Program Improvement Initiatives

The Department's fiscal year 2014 Budget request comes at a time of tightly constrained resources. In light of this funding environment, PHAs have requested that HUD provide relief from various requirements related to the operation of PIH programs as well as greater flexibility in the use of PIH resources. The Department has undertaken a comprehensive review and evaluation of these requests to identify items that merit implementation. Enactment and implementation of proposed measures will generate a cost savings to the Department; reduce the administrative burden on PHAs and provide them with flexibilities that will enhance their capacity to respond to local housing need; and/or promote program efficiencies at the PHA or HUD level. Several of the measures will also reward agencies that perform well.

Many of the items listed below were requested in HUD's fiscal year 2013 budget request. Other items proposed in the Department's fiscal year 2014 request represent new initiatives in response to industry requests. The Department will introduce comprehensive legislation to implement these initiatives in the spring. Major proposals that will affect the Public Housing Operating Fund and will be presented as part of that proposed legislation are highlighted below.

- Increase the threshold for deduction of medical and related care expenses. This provision would generate estimated savings of \$23 million in fiscal year 2014. The change would increase the threshold for the deduction of medical and related care expenses from 3 to 10 percent of family income. NOTE: This provision was included in the Department's fiscal year 2013 budget request.
- Authorize triennial recertifications of fixed-income families. Nearly 60 percent of public housing, voucher, and project-based Section 8 tenants are either elderly or disabled or both; and a significant percentage of these families are living on a fixed income. Under current law, PHAs and owners must recertify the incomes of all program participants on an annual basis. Similar to a provision in the Affordable Housing and Self Sufficiency Act of fiscal year 2012 (AHSSIA), this policy change would offer no budgetary savings, it would reduce the administrative burden on PHAs and owners. Eligible families would be defined as those for whom at least 90 percent of income is from sources such as Social Security; federal, state, local, and private pension plans; and the supplemental security income program. During the interim years, eligible families would self-certify as to their continued eligibility, and PHAs and owners would have the option of adjusting the families' prior-year incomes by an inflationary factor.
- Replace PHA Annual Plans. For fiscal year 2014, the Department proposes to eliminate the requirement that PHAs complete and submit PHA Annual Plans. This would reduce the burden on PHAs, while replacing it with meaningful planning processes for resident feedback, including the requirement that PHAs hold meetings with residents and the public related to significant changes to PHA policies and proposals of major activities, such as the demolition or disposition of public housing. This would

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be consistent with the enactment of Housing and Economic Recovery Act of 2007 (HERA), where the majority of PHAs are exempted from the annual plan requirement and in its place, required an annual hearing.

- Expand the Moving-to-Work (MTW) program. The legislative proposal will include a substantial expansion of the MTW program to high capacity PHAs. In partnership with HUD, participating PHAs will design and implement innovative policies related to housing preservation, family self-sufficiency, mobility, cost-effectiveness and other priority areas. Key tenant protections will continue to apply and PHAs will be subject to rigorous reporting and evaluation requirements.
- Authorize Consolidated Opportunities for Resident Enrichment (CORE) flexibility. In this tight economic environment, it is critical that 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 (HCV) 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 HCV 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 HCV families, HUD is requesting authority for PHAs to create the Consolidated Opportunities for Resident Enrichment (CORE) flexibility, not limited to the current menu of services. CORE would be 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 HCV administrative fees to be used for resident supportive services, such as service coordination, case management, and administration of service programs. 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.
- Improve the process for establishing Fair Market Rents (FMRs). FMRs, which are based on rent survey data, are currently used for rent-setting in both the voucher and project-based Section 8 programs. If the flat rent/ceiling rent provision described below is adopted, they will become a factor in rent-setting in the public housing program, as well. This provision strikes the statutory requirement that FMRs be published for comment in the *Federal Register*, making it possible for HUD instead to publish proposed FMRs to the Web along with any proposed material changes in methodology. A version of this language appeared in the Department's fiscal year 2012 budget request and in AHSSIA.
- Establish a floor for flat rent/ceiling rent levels. This provision will generate savings of \$40 million (in PH) in fiscal year 2014. Both the Department's fiscal year 2013 budget request and AHSSIA would have established a flat rent/ceiling rent floor at 80 percent of the applicable FMR. To assure that no family's rent would increase by more than 35 percent in any 1 year, the

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increase would be phased in, where applicable. The intent of the change is to align public housing flat rents more closely with market rents.

- Permit tenant self-certification of compliance with the community service requirement. Existing statute requires most non-elderly, non-disabled adults residing in public housing who are not engaged in “work activities” to complete 8 hours of community service per month. PHAs are required to track resident participation in community service activities and to certify with community service organizations that tenant obligations have been fulfilled. Compliance with the certification and tracking requirements can sometimes require dedicated staff within a PHA. We propose to amend the statute to authorize resident self-certification of compliance with the community service requirement while strengthening requirements related to resident input. PHAs would have the option of auditing such self-certifications and would remain obliged to meet the requirements associated with non-compliance, including offering residents an opportunity to cure prior to non-renewal of the lease.
- Provide operating/capital fund flexibility. The Department proposes to extend current statutory authority provided to agencies with fewer than 250 public housing units, to all PHAs regardless of program size and implement this flexibility through publication in the Federal Register. Currently, only small agencies have the ability to use their public housing Operating and Capital funds interchangeably. Larger agencies are restricted to the eligible uses for each grant as established by the 1937 Housing Act, which limits their ability to use program resources to meet the capital needs of their housing assets without assuming debt. The 1937 Housing Act restricts the use of Operating funds for modernization to paying debt service. As a result, PHAs must pay finance charges to simply use their available funds to invest within their housing stock. All asset managers must prioritize their available resources against needed capital investments. Only PHAs operating the public housing program are limited in their ability to maximize their resources and responsibility to invest within their portfolio. The limitation against using Operating resources directly to modernize their housing stock represents an inefficient use of limited government resources. In the face of a \$26 billion backlog in capital needs, PHAs need full flexibility to address the needs of their portfolio. A failure to invest in the public housing portfolio jeopardizes the long-term viability of these important affordable housing assets. Coupled with this proposal for increased flexibility, the Department is developing strategies to more effectively monitor how PHAs use their resources to address capital needs. With the impending implementation of the Physical Needs Assessment (PNA) tool, HUD will gain more timely data on not only the public housing portfolio’s capital needs but investments against those needs. PHAs will be required to update the PNA every 5 years and provide an annual update of the work that has been completed. In addition to using data from the PNA, the Department is exploring the possibility of using audited financial statements to distinguish expenditures toward fixed assets, such as betterments and modernization that extend the useful life of the housing stock rather than expenses incurred to sustain day-to-day operations. With the proposed NGMS technical investments the Department will increase its capacity to monitor the use of federal funds and use

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technology to triangulate capital investments, financial expenditures, and physical property scores data to more effectively monitor the physical health of the housing stock, as well as how resources are being maximized within the program.

- Define a public housing agency to include a consortia of PHAs. This proposal, which was included in the Department's fiscal year 2013 budget request, would amend the definition of a "public housing PHA" to include a "consortium of PHAs." Currently, there is statutory authority for PHAs to form consortia for the purposes of administering tenant-based assistance, but not for administering public housing. Changing the definition 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.
- Launch a utilities conservation pilot. The Department proposes to implement an Energy Conservation Pilot modeled on the frozen rolling base that will incentivize a broad range of PHAs to undertake energy conservation measures (ECMs), with some portion of the savings accruing to the federal government. Participation in the pilot will be open to any PHA and will be voluntary.

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OPERATING FUND BUDGET 2014				
		Actual	Estimated	Estimate (includes flat rent and medical exclusion cost savings)
#	Description	FY 2012	FY 2013	FY 2014
1	Non Utility Expense Level (PEL)	\$5,108,711,870	\$5,216,863,635	\$5,361,013,572
2	Utilities	1,724,858,154	1,649,993,242	1,704,273,683
3	Less: Tenant Income	<u>(2,935,267,454)</u>	<u>(2,938,125,455)</u>	<u>(2,969,073,608)</u>
4	Public Housing Operating Fund Base (line 1-3)	3,898,302,570	3,928,731,422	4,096,213,647
5	MTW Alternative Formula Grant, PHA's not in Base	494,892,418	493,770,058	507,415,887
8	Public Housing Add-ons			
9	Elderly/Disabled Coordinators	16,357,921	16,516,327	17,058,063
10	Resident Participation	25,265,300	25,408,600	25,281,557
11	Energy-Add On for Loan Amortization	40,759,506	41,509,558	42,871,072
12	Payments in Lieu of Taxes	126,562,410	130,849,842	135,141,717
13	Cost of Independent Audit	23,710,199	24,792,894	25,606,101
14	Asset Management Fee	39,587,404	39,182,960	38,987,045
15	Information Technology Fee	26,373,684	26,133,434	26,002,767
16	Asset Repositioning Fee	51,305,633	42,919,259	44,327,011
17	Mutual Help and Turnkey Units	254,282	262,928	271,552
18	Estimated Appeals	10,000,000	10,000,000	10,000,000
19	Stop Loss	<u>137,411,319</u>	<u>136,555,092</u>	<u>135,872,317</u>
20	Subtotal Operating Fund Base (line 4-19)	4,890,782,646	4,916,632,374	5,105,048,736

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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>2012 Budget Authority</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2012 Obligations</u>	<u>2013 Annualized CR</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2014 Request</u>
Operating Subsidy	\$3,941,850	...	\$3,941,850	\$3,941,503	\$3,986,097	...	\$3,986,097	\$4,600,000
Transformation Initiative .....	...	...	...	...	...	...	...	...
PHA Financial Hardship Assistance	<u>20,000</u>	<u>...</u>	<u>20,000</u>	<u>15,742</u>	<u>...</u>	<u>\$4,258</u>	<u>4,258</u>	<u>...</u>
Total	3,961,850	...	3,961,850	3,957,245	3,986,097	4,258	3,990,355	4,600,000

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

Below is the italicized appropriations language for the Public Housing Operating Fund account.

For 2014 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)), \$4,600,000,000: Provided, That in determining public housing agencies', including Moving to Work agencies', calendar year 2014 funding allocations under this heading, the Secretary shall take into account the impact of changes in flat rents and medical expense thresholds on public housing agencies' formula income levels..

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.