

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2019 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>
2017 Appropriation	\$4,400,000	\$297,173	...	\$4,697,173 ^a	\$3,943,891	\$4,319,625
2018 Annualized CR	4,400,000	627,851	-\$29,880 ^b	4,997,971 ^c	4,998,000	4,246,000
2019 Request	<u>3,279,000</u>	<u>-166,000</u>	...	<u>3,113,000^d</u>	<u>3,103,000</u>	<u>3,537,000</u>
Change from 2018	-1,121,000	-793,851	+29,880	-1,884,971	-1,895,000	-709,000

a/ Total resources and obligations for fiscal year 2017 includes \$109.6 million transferred from the public housing operating fund for subsidy payments for units converting under the Rental Assistance Demonstration (RAD).

b/ Public Law 115-56 requires a reduction from the fiscal year 2017 enacted budget authority of 0.6791 percent.

c/ Total resources and obligations for fiscal year 2018 includes an estimated \$125 million transferred for the implementation of RAD.

d/ Total resources and obligations for fiscal year 2019 includes an estimated \$166 million transferred for the implementation of RAD.

1. Program Purpose and Fiscal Year 2019 Budget Overview

The 2019 President’s Budget request of \$3.279 billion of the Public Housing Operating Fund, the request is \$1.1 billion less than the fiscal year 2018 Annualized CR level.

Of this amount, \$2.614 billion is provided for formula-based operating grants, up to \$600 million in shortfall funding, \$35 million for set-asides transferred from the Public Housing Capital Fund, and up to \$30 million for new competitive demolition grants.

The request represents a 54 percent proration against formula eligibility for operating subsidies. When coupled with the use of existing reserves and key policy changes, the funding level will allow the Department to continue to serve approximately 1 million units across more than 3,000 Public Housing Authorities (PHAs). PHAs will use this funding for the operation, management, and maintenance of public housing throughout the United States and its territories. The funding request also reflects a set of rental reform policies, described further below, that reduce costs while continuing to assist current residents; these policies will be part of a legislative package that will be submitted to Congress in March 2018.

Key program outcomes include, but are not limited to:

- Strategic reduction of the public housing portfolio

Public Housing Operating Fund

- Providing PHAs with tools to make locally-driven decisions about their properties
- Leveraging federal, state, and local resources to provide affordable housing.

2. Request

As authorized by Section 9 of the United States Housing Act of 1937, the Public Housing Operating Fund program provides subsidies necessary for PHAs to operate and maintain approximately 1 million affordable public housing units. The public housing stock serves an important role in the housing market, providing homes for some of the nation's most vulnerable renters as well as investment in local economies. Local administration of federal funds allows communities the freedom to tailor public housing to suit local needs including establishing preferences for the elderly, disabled, homeless veterans, homeless persons, as well as the working poor. On average, public housing units serve 2.1 residents with an average household income of \$14,721. Extremely low-income families (families earning less than 30 percent of an area's median income) make up approximately two thirds of public housing households, and about 40 percent of all households served include children. Further, fixed-income seniors or people with disabilities comprise over half of all households.

The Public Housing Operating Fund budget request covers day-to-day operational expenses associated with public housing as well as program implementation expenses that PHAs are required to undertake under the 1937 Housing Act and existing program regulations. This includes, but is not limited to:

Public Housing Operation

- Management and operations, including staff costs
- Routine and preventative maintenance
- Anti-crime, anti-drug and security activities
- Operating costs for privately owned public housing units in mixed-finance projects
- Energy costs
- Resident supportive services, support coordinators, and participation activities
- Insurance
- Debt services incurred to finance unit rehabilitation and development

Program Implementation

- Annual re-certifications
- Timely rent collection
- Submission of annual audited and unaudited financial statements to HUD
- Asset management over the physical and financial integrity of the program
- Annual unit inspections
- Prioritization and planning for the long-term capital needs to maintain the viability of PHA properties

Public Housing Operating Fund

The total fiscal year 2019 request of \$2.841 billion includes funding for the Operating Fund formula and the following supporting activities:

- \$2.614 billion for formula-based Operating Fund grants;
- Up to \$600 million for Shortfall funding;
- Up to \$10 million for Emergency and Natural Disaster Reserve;
- Up to \$1 million for Administrative and Judicial Receiverships;
- Up to \$14 million for Financial and Physical Assessment Support;
- Up to \$10 million for the Jobs-Plus Initiative; and
- Up to \$30 million for competitive demolition Grants.

3. Justification

Public Housing provides affordable housing absent of market-driven factors, which ensures affordability for low-income families. The Operating Fund provides operating subsidy payments to more than 3,000 PHAs for the operation, management, and maintenance of publicly owned affordable rental housing throughout the United States and its territories. PHA eligibility for a subsidy from the Operating Fund is based on a formula established through negotiated rulemaking in 2007 and codified at 24 CFR 990. Operating Fund subsidy eligibility has four primary cost drivers:

- The allowable Project Expense Levels, which were baselined against comparable FHA properties;
- The reimbursement cost of utilities, or the Utilities Expense Level;
- Tenant incomes and their corresponding rent contributions; and
- The number of months a unit is eligible for funding, or the Eligible Unit Months.

While the Operating Fund formula considers a variety of factors to approximate the cost of operating each public housing project, the result is not always commensurate with the true costs for a given project. Operating subsidy, tenant rents, and/or program income in excess of operating expenses are held by PHAs in an Operating Reserve to be used for future needs in administering the program. This budget request assumes that PHAs will utilize both requested funds plus Operating Reserves to support their operating needs for the public housing program.

PHAs can use operating funds, as well as operating reserves in addition to prior year capital funds, flexibly under a general provision in this Budget that provides full flexibility between the Operating and Capital Fund accounts. The Administration encourages PHAs to work with state and local governments to address capital needs with non-federal funding. The Administration is also committed to providing PHAs with options to make locally-driven decisions about the future of their public housing properties.

Public Housing Operating Fund

Below are explanations of the various sub-account requests:

Shortfall Funding

The request includes up to \$600 million in set-aside funds to support PHAs that HUD projects may become insolvent based on funding levels and PHA-held operating reserves in order to continue to house families in public housing units. Most PHAs have sufficient reserves to operate projects at a reduced federal funding level in 2019; but because operating subsidy is provided through formula, and because operating reserve levels vary significantly by PHA, funding reductions affect individual PHAs differently. Although some PHAs may be able to streamline operations, reduce costs, or make use of more flexible operating funds, others may not be able to make such adjustments and risk terminating families or ceasing operations. Consistent with the set-aside funding provided to the Housing Choice Voucher program, HUD is proposing \$600 million in shortfall funding, which would be targeted to the most financially distressed PHAs, improving their stability.

Emergency and Natural Disaster Reserve

The request includes up to \$10 million for grants to PHAs for capital needs arising from emergency situations or non-Presidentially declared natural disasters. PHAs whose properties suffer damage because of Presidentially declared natural disasters are eligible to receive funding from the Federal Emergency Management Agency under the Robert T. Stafford Relief Act. Examples of capital needs funded from this set-aside include plumbing replacement, sewer line replacement, foundation stabilization, HVAC replacement, fire alarm replacement, flood abatement and mold removal and repairs, boiler pipe replacement, and emergency window replacement.

Administrative Receivership

The request includes \$1 million to provide technical assistance for housing agencies in Administrative Receiverships. While the number of agencies in this category has been significantly reduced over the past five years, it is anticipated that there will always be a caseload of 1-3 public housing agencies. Depending on the size of the agency and the complexity of the governance and financial issues, technical assistance at a Receivership agency will cost between \$350,000 - \$1,500,000 annually. The technical assistance allows HUD to stabilize the operations of a Receivership agency and to provide the foundation to return the agency to local control as soon as it is feasible.

Financial and Physical Assessment Support

The request includes up to \$14 million to provide financial and physical assessment support for rental housing assistance programs. These activities are primarily performed by the Real Estate Assessment Center (REAC), which provides the Offices of Housing and Public and Indian Housing with timely and accurate assessments of HUD's assisted real estate portfolio using physical and financial assessments.

Public Housing Operating Fund

Jobs-Plus Initiative

The Jobs-Plus Initiative is an evidence-based strategy for increasing the employment opportunities and earnings of public housing residents through a three-pronged program of employment services, rent-based work incentives, and community support for work. The request includes up to \$10 million for new Jobs-Plus grants to PHAs.

Demolition Funding

The request includes \$30 million for competitive Public Housing Demolition Grants. This would allow the Department to provide funding to PHAs to facilitate demolition of physically obsolete public housing projects. As evidenced by HUD's most recent capital needs assessment, the public housing portfolio has a \$26 billion capital needs backlog, which grows annually at a rate of \$3.4 billion per year. The result of this lack of investment for some of the portfolio is significant capital needs and units that are beyond repair.

Making demolition grants available is critical because:

- Physically obsolete and severely distressed public housing units create health and safety hazards for residents;
- If vacant, these properties may become sources of criminal activity and hurt surrounding property values and the community at-large;
- Offering a severely distressed property for sale as-is can make the property unmarketable; and
- Lack of dedicated funding is for many PHAs a serious obstacle to acting on a HUD-approved demolition.

Cross-cutting Rent Reform Proposals

The current rent structure in HUD's rental assistance programs creates disincentives to employment and stable family formation, imposes large administrative burdens, generates significant costs to the Federal government, and represents a one-size-fits-all approach that does not take into consideration local community needs. HUD is committed to the reformation of its rental assistance programs with the following goals:

1. Encouraging work and stable family formation;
2. Simplifying program administration;
3. Increasing local control and choice;
4. Reducing costs to the federal government; and
5. Protecting current elderly and disabled households from adverse impacts.

In furtherance of these goals, while also continuing to assist current residents, HUD will submit a rental reform legislative proposal to Congress in March. This Budget reflects key elements of that proposal, including:

- Establishing or increasing mandatory minimum rents;
- Simplifying rent calculations and increasing tenant rent contributions;

Public Housing Operating Fund

- Preventing rent increases for the most vulnerable current tenants, the elderly and disabled, when the new rent policies are implemented;
- Limiting income recertification for all households to once every three years, which supports stable family formation and incentivizes work by deferring increases in tenant rent payments as a result of increased wages;
- Providing a hardship exemption for tenants who, in certain circumstances, are unable to pay their rents; and
- Giving PHAs and property owners the option to choose alternative rent structures, approved by the Secretary, that work best for their communities, as well as the option to implement minimum work requirements for work-able residents. These alternative rent structures must incur the same overall program costs.

Proposed funding levels, while significantly reduced from the 2017 enacted level, should support currently assisted households while strategically reshaping the Federal footprint of HUD's rental assistance programs over time. As the legislative proposal is finalized, the requested allocation of funding across rental assistance programs in 2019 may change within the existing Departmental topline. HUD will provide Congress with updates to these programs' funding levels after the proposal is released.

Please see the "Enhance Rental Assistance" justification for more information.

The Future of the Public Housing Program

Public Housing has a \$26 billion capital needs backlog that grows annually, and local and state governments have not committed enough resources to preserve the long-term affordability of this important local resource. Increased regulation of the program has also made it difficult for PHAs to manage their properties effectively, and the current rent structure provides a disincentive for tenants to engage in work activities and to achieve self-sufficiency. Furthermore, the existing tools available to PHAs to deal with their rapidly deteriorating inventory, including HUD's Rental Assistance Demonstration (RAD), Section 18 Demolition and Disposition, and Voluntary Conversion, are currently all limited in their scope and ability to preserve affordable housing for the future.

To address the problem, the President's Budget includes enhanced tools and strategies to empower PHAs to make local decisions about how to best use their properties to meet the needs of their communities. For PHAs to continue to serve the families currently housed, the Budget requests new flexibilities that will enable PHAs to manage their programs in a fiscally responsible manner while mitigating displacement of currently supported households. For fiscal year 2019, HUD seeks the following flexibilities:

- **Waiver Proposal**: HUD seeks broad authority to waive statutory and regulatory requirements to provide PHAs with the flexibility to tailor and apply policies that address their individual needs and are acceptable within their local communities. Such waivers would encourage increased local discretion and flexibility in terms of how PHAs operate their public housing programs in a challenging budgetary environment. Specifically, HUD seeks to waive statutory and regulatory provisions

Public Housing Operating Fund

related to PHA administrative, planning, and reporting requirements; energy audits; income recertifications; and program assessments.

- Capital and Operating Fund Flexibility: HUD proposes to extend the flexibility available to most small PHAs to utilize the Capital and Operating Funds interchangeably to all PHAs, regardless of troubled status and the condition of a PHA's public housing portfolio. Today, only small PHAs (under 250 units) that are not troubled and operate public housing in a safe, clean and healthy condition have full flexibility. Larger agencies are permitted to transfer only 20 percent of the Operating Fund to the Capital Fund and vice versa. HUD proposes full flexibility for all PHAs to use fiscal year 2019 operating subsidies and prior year funding from both the Capital and Operating Funds. This flexibility would enable PHAs to focus limited Federal resources on local priorities without being constrained by the statutory limitations of each fund.

The Budget also requests funding to support asset recapitalization options, including:

- \$30 million for new competitive demolition grants: As described on page 7-5
- \$60 million in Tenant Protection Vouchers for affected Public Housing residents: The Budget requests a set-aside to mitigate the displacement of Public Housing families as properties exit the program. More information about this request can be found in the Tenant-Based Rental Assistance (TBRA) justification.
- \$100 million to facilitate and enable Rental Assistance Demonstration (RAD) conversions: The funding will support the RAD conversion of public housing units that would not be able to access private financing without additional capital. RAD allows public housing properties to shift to the Section 8 Project-Based Voucher (PBV) and Project-Based Rental Assistance (PBRA) platforms. These project-based Section 8 programs benefit from greater private sector involvement and can leverage private financing for modernization, generally resulting in higher quality housing for the assisted low-income families. More information about this request can be found in the RAD justification.

In 2019, HUD will also continue the conversion of Public Housing to long-term Section 8 contracts under the RAD program. Each year, HUD transfers public housing operating and capital funds to the PBRA or TBRA accounts in the amounts necessary to fund the new Section 8 HAP contracts that were entered into in the prior year. (Authority to execute this transfer is provided within Public Law 112-55.) Without any funding appropriated to the Public Housing Capital Fund in 2019, the funds to support the transfers will originate from the Operating Fund.

On a parallel track, HUD is pursuing administrative items that would enhance recapitalization and preservation options available to PHAs:

- Allow PHAs, under certain conditions, to retain public housing property free from use restrictions and exempt from the compensation requirements of 2 CFR part 200. This option would allow PHAs to retain the real property and end HUD's commitment to provide annual public housing subsidies.

Public Housing Operating Fund

- Permitting small PHAs to utilize a streamlined Voluntary Conversion process to retain public housing property free from use restrictions and provide existing Housing Choice Vouchers (HCV) and/or tenant protection Vouchers for existing residents. This option would reduce the number of PHAs and facilitate PHA consolidation.
- Streamlining the existing application and approval processes when PHAs propose to demolish, sell, or lease public housing property under Section 18 Demolition and Disposition.

The flexibilities, funding and administrative items described above are the initial steps in a broader Departmental strategy to improve Public Housing asset recapitalization options and encourage local choice. The Department looks forward to working with Congress and stakeholders to get feedback and effectuate the vision for the Public Housing program.

General Provisions

The budget proposes the following General Provisions related to the Public Housing Operating Fund:

- Prohibition on use of funds to pay executive salaries above Level IV of the Executive Schedule (Sec. 214).
- Option to not to enforce the Physical Needs Assessment requirement (Sec. 215).
- Increased waivers, flexibilities, and regulatory relief for PHAs (Sec. 227).
- Flexibility for PHAs to use Capital and Operating Fund grants for all eligible Public Housing activities (Sec. 230).

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>2017 Budget Authority</u>	<u>2016 Carryover Into 2017</u>	<u>2017 Total Resources</u>	<u>2017 Obligations</u>	<u>2018 Annualized CR</u>	<u>2017 Carryover Into 2018</u>	<u>2018 Total Resources</u>	<u>2019 Request</u>
Operating Subsidy	\$4,400,000	\$406,818	\$4,806,818	\$3,943,891	\$4,370,120	\$752,851	\$5,122,971	\$2,614,000
Competitive Demolition Grants .....	...	...	...	...	...	...	...	30,000
Emergency Disaster Reserve .....	...	...	...	...	...	...	...	10,000
Financial and Physical Assessments .....	...	...	...	...	...	...	...	14,000
Administrative and Judicial Receiverships ..	...	...	...	...	...	...	...	1,000
Shortfall Prevention ..	...	...	...	...	...	...	...	600,000
Jobs Plus Initiative ..	...	...	...	...	...	...	...	10,000
Rental Assistance Demonstration (transfer) .....	...	<u>-109,645</u>	<u>-109,645</u>	...	...	<u>-125,000</u>	<u>-125,000</u>	...
Total	4,400,000	297,173	4,697,173	3,943,891	4,370,120	627,851	4,997,971	3,279,000

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

The fiscal year 2019 President's Budget includes proposed changes in the appropriation language listed below.

For 2019 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)), and for other purposes as specified under this heading, \$3,279,000,000, to remain available until September 30, 2020 (except as otherwise specified under this heading): Provided, That notwithstanding any other provision of law or regulation, of the total amount available under this heading, \$600,000,000 shall be available to the Secretary to allocate pursuant to a need-based application process not subject to the Operating Fund formula at 24 C.F.R. 990 to public housing agencies (PHAs) that experience financial insolvency, as determined by the Secretary: Provided further, That after all such insolvency needs are met, the Secretary may distribute any remaining funds to all PHAs on a pro-rata basis pursuant to the Operating Fund formula at 24 C.F.R. 990: Provided further, That of the total amount made available under this heading, no less than \$30,000,000 shall be available until September 30, 2022 for competitive grants to PHAs for demolition, and the associated relocation and administrative costs, of the most distressed public housing units: Provided further, That of the total amount made available under this heading, up to \$14,000,000 shall be available until September 30, 2022 to support ongoing Public Housing Financial and Physical Assessment activities: Provided further, That of the total amount made available under this heading, up to \$1,000,000 shall be available until September 30, 2022 to support the costs of administrative and judicial receiverships: Provided further, That of the total amount made available under this heading, not to exceed \$10,000,000 shall be available until September 30, 2022 for the Secretary to make grants, notwithstanding section 204 of this Act, to public housing agencies for emergency capital needs resulting from unforeseen or unpreventable emergencies and natural disasters excluding Presidentially declared emergencies and natural disasters under the Robert T. Stafford Disaster Relief and Emergency Act (42 U.S.C. 5121 et seq.) occurring in fiscal year 2019: Provided further, That of the total amount made available under this heading, up to \$10,000,000 shall be available until September 30, 2022 for a Jobs-Plus initiative modeled after the Jobs-Plus demonstration: Provided further, That funding under the previous proviso shall be available for competitive grants to partnership between PHAs, local workforce investment boards established under section 107 of the Workforce Innovation and Opportunity Act of 2014, and other agencies and organizations that provide support to help public housing residents obtain employment and increase earnings: Provided further, That applicants must demonstrate the ability to provide services to residents, partner with workforce investment boards, and leverage service dollars: Provided further, That the Secretary may allow PHAs to request exemptions from rent and income limitation requirements under section 3 and 6 of the United States Housing Act of 1937 as necessary to implement the Jobs-Plus program, including earned income disregards, on such terms and conditions as the Secretary may approve upon a finding by the Secretary

Public Housing Operating Fund

that any such or alternative requirements are necessary for the effective implementation of the Jobs-Plus initiative as a voluntary program for residents: Provided further, That the Secretary shall publish by notice in the Federal Register any waivers or alternative requirements pursuant to the preceding two provisos no later than 10 days before the effective date of such notice: Provided further, That the amount of any reduced tenant rent payments due to the implementation of rent incentives as authorized pursuant to such waivers or alternative requirements shall be factored into the PHA's general operating fund eligibility pursuant to 24 C.F.R. 990 and shall not be charged against the competitive grant amounts.

Note.—A full-year 2018 Annualized CR for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.