

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Public and Indian Housing

Public Housing Fund

SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2019 Appropriation	4,653,116 ^{a/}	293,642	-	4,946,758 ^{b/}	4,874,160	4,458,229
2020 Appropriation	4,549,000 ^{a/}	19,409	-	4,568,409 ^{c/}	4,569,000	4,520,000
2021 President's Budget	3,572,000	(128,000)	-	3,444,000 ^{d/}	3,444,000	3,656,000
Change from 2020	(977,000)	(147,409)	-	(1,124,409)	(1,125,000)	(864,000)

a/ In 2019 and 2020, the amount was enacted under the heading "Public Housing Operating Fund" for Operating Subsidies.

b/ Carryover and Total Resources for fiscal year 2019 are shown net of \$105 million transferred from the Public Housing Operating Fund for subsidy payments for units converting under the Rental Assistance Demonstration (RAD).

c/ Carryover and Total Resources for fiscal year 2020 are shown net of \$62 million transferred for RAD.

d/ Carryover and Total Resources for fiscal year 2021 are shown net of \$128 million transferred for RAD.

PROGRAM PURPOSE

The Public Housing Fund supports the Public Housing program by providing federal grants to Public Housing Agencies (PHAs) to operate, maintain and manage affordable public housing for approximately 915,000 families. The Budget proposes to rename the "Public Housing Operating Fund" to the "Public Housing Fund" to emphasize that the Budget provides flexibility for PHAs to use this funding for capital improvements as well.

The public housing stock serves an important role in the nation's housing system, ensuring housing for some of the Nation's most vulnerable families. Local administration of federal grant funds allows communities the enhanced flexibility to tailor public housing to suit local needs including establishing preferences for the elderly, disabled, homeless persons, as well as the working poor.

Households served by the public housing program have an average income of \$15,624 and pay an average rent of \$371. Approximately one third of all households earn wages, and over half of all households are fixed-income seniors or people with disabilities. Extremely low-income families (families earning less than 30 percent of an area's median income) comprise 60 percent of households in public housing units, and about 36 percent of all households served include children.

BUDGET OVERVIEW

The 2021 President's Budget requests \$3.57 billion for the Public Housing Fund, which is \$977 million less than the 2020 enacted level under the Public Housing Operating Fund. The Budget moves \$672 million to the Moving to Work Account for Public Housing purposes, which is not included in the \$3.57 billion. After factoring in savings achieved through the Administration's proposed rent reform policies, this funding level represents a 100% proration against formula eligibility for operating grants.

The total 2021 Budget of \$3.57 billion for the Public Housing Fund supports the following activities:

- \$3.4 billion for Public Housing Fund grants distributed based on the Operating Fund formula;

- \$40 million for Administrative and Judicial Receiverships technical assistance grants for high risk PHAs to address shortfall prevention, recovery and transformation;
- \$10 million for Emergency and Natural Disaster Reserve;
- \$23 million for Financial and Physical Assessment Support;
- \$30 million for competitive Demolition Grants;
- \$35 million for competitive Lead-Based Paint Grants; and
- \$30 million for competitive Full Lead Service Line Replacement Grants.

The 2021 Public Housing Fund assumes a total of \$672 million for MTW agencies: \$650 million of funding supporting approximately 89,000 public housing units for the current 39 MTW demonstration program PHAs and \$22 million of funding supporting approximately 5,000 units for the 30 PHAs that will be designated as MTW in 2020. These PHAs are funded in a separate, stand-alone MTW account. Please see the “Moving to Work” justification for more information. Further, the Budget assumes savings through HUD’s proposed rental reforms and work requirements of approximately \$394 million.

JUSTIFICATION

The Public Housing Fund provides payments to nearly 3,000 PHAs for the operation, management, maintenance, and capital needs of publicly owned affordable rental housing throughout the United States and its territories. PHA eligibility for a grant from the Public Housing Fund is based on the Operating Fund formula established through negotiated rulemaking in 2007 and codified at 24 CFR 990. Funding provided through the Public Housing Fund covers day-to-day operational expenses associated with public housing and program implementation expenses that PHAs are required to undertake under the 1937 Housing Act and existing program regulations, and supplements state and local investments for public housing capital needs. This includes, but is not limited to:

Public Housing Operation

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

Public Housing Program Implementation

- Recertifications of income and household composition
- Timely rent collection
- Submission of annual unaudited and audited financial statements to HUD
- Asset management over the physical and financial integrity of the program
- Annual unit inspections
- Planning for the long-term capital needs to maintain the viability of PHA properties
- Debt service incurred to finance unit rehabilitation and development

Capital Needs

- Development, financing and modernization of public housing projects
- Vacancy reduction
- Addressing deferred maintenance
- Planned code compliance
- Management improvements including support of resident participation

- Demolition and replacement
- Resident relocation
- Capital expenditures for addressing emergency/disaster and security and safety needs.

Although funding at this level is projected to be sufficient to cover public housing operating expenses, funding under this account will also be available to address program capital needs. Given the challenges faced by PHAs to address capital needs, the Budget seeks to provide expanded authority for PHAs. Such authority includes the ability to use these funds, as well as operating reserves and prior year capital funds, flexibly for operating or capital purposes under a general provision in this Budget. The Administration encourages PHAs to work with state and local governments to supplement the federal appropriation with non-federal funding to address additional public housing capital needs.

Prevention, Recovery, and Transformation of High-Risk PHAs (Administrative and Judicial Receiverships)

HUD is proposing to broaden the reach of the receivership set-aside to allow HUD to proactively address the needs of high-risk PHAs before they go into receivership. The Budget includes up to \$40 million to support the costs of addressing the needs of these high-risk PHAs. Specifically, the set-aside will support (1) the costs of administrative and judicial receiverships, (2) competitive grants for asset improvement, repositioning, or recapitalization to PHAs in receivership, designated troubled or substandard, or otherwise at risk, and (3) non-competitive grants to PHAs experiencing insolvency. Funding will be used to address deteriorated physical conditions and financial challenges to prevent high risk and troubled PHAs from entering into receiverships and preserve affordable housing for the future.

As evidenced by HUD's Real Estate Assessment Center (REAC) financial and physical data, there are more than 700 developments with approximately 140,000 units in poor physical condition where the PHA does not have resources to address physical needs. The data also identifies over 1,400 developments representing 116,000 units with a limited remaining useful life with failing or trending to fail physical scores. During any given year, performance scoring under the Public Housing Assessment System (PHAS) identifies over 500 troubled and substandard PHAs and the number of agencies trending toward substandard performance continues to increase each year due to aging stock beyond its useful life, backlogged capital repairs, diminishing federal dollars and other operational challenges.

Further, non-competitive funding from the set-aside would support PHAs with immediate operating shortfalls. HUD data on operating reserves show that approximately 60 PHAs have negative operating reserves totaling \$20 million. Similar to the annual set-aside in the Housing Choice Voucher appropriation, funding awarded under this set-aside for operational shortfalls would enable HUD to provide targeted assistance to agencies with short-term operational challenges. Through the awarding process for such funds, HUD would require PHAs receiving such funds to enter into targeted corrective actions in order to determine the causes of PHA shortfalls, and to address such causes on a case-by-case basis. Through this process, HUD can also evaluate whether additional long-term policy changes are necessary.

Activities will also include technical assistance and administrative costs which enable HUD and PHAs to build capacity, conduct assessments, and develop recapitalization strategies for PHAs whose deep capital needs pose financial and operational risks to the agency.

Emergency and Natural Disaster Reserve

The Budget 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 under grants for non-Presidentially declared emergencies and disasters include plumbing replacement; sewer line replacement; foundation stabilization; heating, ventilation, and air conditioning (HVAC) replacement; fire alarm replacement; flood abatement and mold removal and repairs; boiler pipe replacement; and emergency window replacement.

Financial and Physical Assessment

The \$23 million for Financial and Physical Assessments (FPA) is essential to complete the physical inspections of 7,000 plus public housing properties and to assess the financial condition of approximately 3,100 PHAs that receive HUD funds to manage and operate public housing units. Additionally, the Real Estate Assessment Center's (REAC) new physical inspection standards, National Standards for the Physical Inspection of Real Estate (NSPIRE), will move from design to full implementation in fiscal year 2021; the Budget will support this transition. It is anticipated that the inspection costs will be higher under NSPIRE due to additional unit sampling resulting in increased inspection duration and level of effort. The Budget will provide the Department with improved capabilities necessary to meet its oversight responsibilities and to more accurately determine if HUD assisted and insured properties are meeting minimal compliance thresholds for safe and habitable housing. HUD also expects with NSPIRE's increased emphasis on health and safety hazards within the residents' units, property owners will prioritize the repair of defects that pose a risk to residents over those related to function or condition and appearance, reducing potential harm to residents living in HUD housing. Further, the department is also using the implementation of NSPIRE as an opportunity to incorporate the Consolidated Appropriations Act of 2016 directive to implement a single inspection protocol for Public Housing and Housing Choice Voucher (HCV) units, and the Economic Growth Regulatory Relief and Consumer Protection Act (Economic Growth Act) provisions that apply to small and rural PHAs. HUD will use this funding to provide the capabilities necessary to receive, process, analyze, and manage a volume of data and information unlike anything within the previous, Uniform Physical Condition Standards (UPCS) inspection model. Similarly, HUD will also incorporate resident input into its physical assessment process, requiring new capabilities to collect, process, and analyze this data and information.

The Budget also supports REAC's Public Housing Assessment System (PHAS) - the custom-designed and built management tool for effectively and fairly measuring the performance of a PHA's essential housing operations. As the centralized system, REAC's iNtegrated Assessment Subsystem (NASS) electronically collects individual subsystem scores, produces a composite PHAS score and communicates the results that represent a PHA's performance. NASS creates timely scores for 3100+ PHAs for fiscal years ending 3/31, 6/30, 9/30 and 12/31. Scores address adjustments, assess late penalty points, and judiciously review information collected by a PHA's unaudited and audited financial submissions. Despite this high level of scrutiny and analysis, REAC releases an average 7,000 scores per year. With the roll out of NSPIRE's new physical inspection standards and a review of the PHAs' financial assessments due to the new accounting standards, the REAC will focus on developing requirements to revamp the 20-year old PHAS scoring model and move in the direction to incorporate the necessary changes.

The REAC Research & Development's (R&D) dedicated analytical services support the physical and financial assessments. R&D generates over 3,100 "PHA Prevalence of Defects Report," which provides each PHA with its customized entity-wide "Top 20 List of Defects" in ranked order based on projected counts (taking into account all buildings and units in properties, not just sampled buildings and units, via statistical estimation). This state-of-the-art diagnostic tool is based on data modeling of inspection data, i.e., the observed deficiencies recorded by the inspector pursuant to the established inspection protocol. The Prevalence Reports support robust portfolio management as

PHAs use the holistic information to improve performance outcomes, better plan for the next round of inspections, and augment the condition of their physical plants to ensure “decent, safe, and sanitary housing in good repair.”

Public Housing Demolition Grants

The 2021 Budget includes \$30 million in funding to PHAs for competitive grants for demolition of physically obsolete public housing projects. The public housing portfolio has a significant backlog of capital needs, rendering many residential units beyond repair. Many of these units are in such a state of obsolescence or deterioration that rehabilitation of the property is entirely cost-prohibitive, and demolition is the only practical solution. Funding for public housing demolition is critical because:

- Physically obsolete and distressed units create health and safety hazards for residents;
- Once vacated, these properties may become sources of criminal activity, affecting the surrounding community; and
- It is needed to eliminate funding obstacles for PHAs that already have HUD approval to demolish obsolete properties; and
- It can provide the opportunity to offer vacant land marketable for future affordable housing development.

Funding at the \$30 million anticipates per-unit funding of up to \$9,000, including \$6,000 for demolition and \$3,000 per occupied unit in relocation and mobility counseling costs, expected to cover costs for 3,000 to 4,000 total units. It will also provide a significant opportunity for small to mid-sized PHAs to acquire funds for such actions—enabling each PHA grantee to request funding up to \$2.5 million and facilitating demolition of 250 to 325 housing units per PHA.

Lead-Based Paint Hazards Grants

The Budget includes \$35 million to support competitive grant funding to address health hazards from lead-based paint in public housing units. Funding for the determination and remediation of health hazards related to lead-based paint is a critical need as most public housing units were constructed prior to 1978 and have extensive potential for lead-based painted surfaces. These grants are a successful tool to advance the health and welfare of public housing residents nationwide, particularly for children under the age of six who are most at risk of suffering the devastating effects of lead poisoning.

Full Lead Service Line Replacement Grants

The Budget proposes \$30 million in competitive funding to PHAs to reduce the amount of lead in drinking water for public housing residents. This funding will address at least 30 public housing developments assuming a per development replacement cost of \$1 million or less. The Environmental Protection Agency (EPA) estimates that drinking water can represent up to 20 percent or more of a person’s total exposure to lead. An estimated 144,400 children live in public housing units built before 1986, where lead pipes (or pipes with lead solder) are more likely to be found.

The Environmental Defense League estimates that 16 states have proactive policies to support efforts to remove lead-service-lines, and that 108 communities have set a target to replace their lead-service-lines, but that only seven communities have finished replacement. Communities that have large estimated need and are actively trying to replace lead-service-lines include places like Cincinnati, OH, Denver, CO, and Newark, NJ. This indicates that there are numerous communities

where PHAs would have community support for their efforts to replace lead-service-lines, but where there is a need for funding.

Many of the efforts to target lead pipes in low-income housing are focused on homeowners or providing loans and grants for amounts insufficient to address a PHA's need. If PHAs are able to use HUD funding to work with their local governments to replace lead-service-lines, not only will this impact the low-income-residents of public housing, but it will allow water utilities and localities to allocate additional resources to other low-income housing.

Priority for funding will be given to PHAs whose local water authority is actively replacing the lead service pipelines leading to public housing developments, verified through an approved local capital improvement plan with dedicated funding. Grants would be targeted to areas with the greatest needs, based on the number of children living in the development, the level of lead in the drinking water, demonstrated need to replace water pipes within the development (i.e. the existence of lead pipes or lead solder in other types of pipes), and local water system involvement.

Rent Reform

The 2021 President's Budget funding level across HUD rental assistance programs would support the same number of households currently assisted while proposing reforms to ensure the long-term fiscal sustainability of HUD's rental assistance programs.

The current rent structure in HUD's rental assistance programs creates disincentives to employment; large administrative burdens for PHAs, private owners, and tenants; significant and increasing costs to the Federal Government; and a one-size-fits-all approach that cannot offer the flexibility to meet the needs of households in communities across the nation.

Thus, with the Making Affordable Housing Work Act (MAHWA), submitted to Congress in April 2018, HUD has proposed reforming rental assistance with the following goals:

1. Simplify program administration: Simplify rent calculations by determining rents using gross rather than adjusted income.
2. Reduce federal taxpayer costs while encouraging work and stable family formation: Limit income recertification for all households to once every three years, which encourages work by deferring increases in tenant rent payments as a result of increased wages. In addition, the law would establish higher expectations for work-able tenants by setting tenant rent contributions at 35 percent of gross income, while setting a lower rent of 30 percent of gross income for those unable to work, notably the elderly and persons with disabilities. Additionally, current elderly and persons with disabilities would be held harmless from rent increases reflected in the proposed legislation. Moreover, HUD would maintain the hardship exemption for tenants who, in certain circumstances, are unable to pay their rents.
3. Increase local control and choice: Empower PHAs and property owners to choose alternative rent structures, approved by the Secretary, that would best serve the needs of households in localities across the nation. These alternative rent structures must incur the same overall program costs and would provide a structure to encourage resident self-sufficiency.

In addition, the 2021 Budget continues to propose uniform work requirements for non-elderly, non-disabled tenants able to work. HUD will continue exploring ways to leverage existing enforcement and compliance mechanisms without adding burdens on PHAs and private multifamily property owners. HUD also will continue to support work requirement demonstration evaluations to build an

evidence base from the experiences of Moving to Work PHAs on effective ways to promote self-sufficiency.

Please see the “Overview of Rental Assistance Programs” justification for more information.

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

Budget Activity	2019 Budget Authority	2018 Carryover Into 2019	2019 Total Resources	2019 Obligations	2020 Appropriation	2019 Carryover Into 2020	2020 Total Resources	2021 President's Budget
Public Housing Formula Grants	4,653,116	399,170	5,052,286	4,874,160	4,524,000	81,799	4,605,799	3,404,000
Shortfall Prevention	-	-	-	-	25,000	-	25,000	-
Public Housing Demolition	-	-	-	-	-	-	-	30,000
Emergency Disaster	-	-	-	-	-	-	-	10,000
Financial and Physical Assessment	-	-	-	-	-	-	-	23,000
High-Risk PHAs (Receiverships)	-	-	-	-	-	-	-	40,000
Lead-Based Paint Hazards Competitive Grants	-	-	-	-	-	-	-	35,000
Full Lead Service Line Replacement Grants	-	-	-	-	-	-	-	30,000
Rental Assistance Demonstration (transfer)	-	(105,528)	(105,528)	-	-	(62,390)	(62,390)	-
Total	4,653,116	293,642	4,946,758	4,874,160	4,549,000	19,409	4,568,409	3,572,000

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Appropriations Language

The 2020 President’s budget has the following changes to appropriations language from the 2020 enacted bill:

- MTW Fund Proposal:** HUD requests language to add a separate MTW Fund account. This new MTW Fund account would provide the annual funding for the MTW agencies out of a single account, rather than through separate accounts (Public Housing Fund and Tenant-Based Rental Assistance – both Housing Choice Voucher and Administrative Fees). The reform to the MTW Fund account will not change the methodology used to calculate the MTW agencies’ funding eligibility. The funding eligibility for MTW agencies will continue to be determined in accordance with the terms and conditions of the MTW agreements or Operations Notice for the Expansion of the MTW Demonstration Program, as applicable. MTW PHAs would be subject to the same proration and inflation of non-MTW PHAs. Please see the MTW Fund narrative for more detailed information.

General Provisions

The 2021 President's Budget re-proposes the following general provisions that were enacted in the 2020 appropriations bill:

- **PHA Executive Compensation:** This provision establishes a cap on PHA personnel compensation tied to the Federal Executive Schedule pay scale (2021 President's Budget, Section 213).
- **Physical Needs Assessments:** Prohibits funds from being used to require or enforce the physical needs assessment (PNA) (2021 President's Budget, Section 214).

The 2021 President's Budget proposes the following new general provisions:

- **Public Housing Flexibilities:** The proposal would allow HUD to waive or provide alternative requirements for energy audits, community service requirements, and PHA Annual Plans. However, this waiver authority would not prevent a PHA from opting to fulfill a current requirement that they believe is useful in the administration of their program. PHAs are required to conduct energy audits at least once every five years regardless of whether the PHA expects to have resources to implement any of the suggested changes from the energy audit. Thus, the cost of the energy audit is, in many cases, expended without any expected benefit to the program. HUD also proposes to extend the regulatory relief for the PHA Annual Plan available to "Qualified Agencies" to all PHAs. Specifically, HUD would eliminate the requirement that nonqualified PHAs complete and submit an annual plan; but would still require all PHAs to hold an annual hearing with residents and the public to discuss and gather feedback on the PHA's planned activities for the upcoming year (2021 President's Budget, Sec. 224).
- **Capital and Operating Fund Flexibility:** HUD proposes to extend to all PHAs the ability to utilize the previous Capital and Operating Funds interchangeably, regardless of troubled status and the condition of a PHA's public housing portfolio. Today, only small PHAs (those with fewer than 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 2021 operating subsidies and prior year funding from the previous Capital and Operating Funds. This option would enable PHAs to focus limited federal resources on local priorities without being constrained by the statutory limitations of each fund (2021 President's Budget, Sec. 226).

APPROPRIATIONS LANGUAGE

The 2021 President's Budget includes proposed changes in the appropriation language listed below. New language is italicized, and language proposed for deletion is bracketed.

For [2020]2021 payments to public housing agencies (*PHAs*) for the operation and management of public housing, as authorized by section 9(e) of the United States Housing Act of 1937 (42 U.S.C. 1437g(e)), [~~\$4,549,000,000~~]*\$3,572,000,000*, to remain available until September 30, [2021]2022 (*except as otherwise specified under this heading*), *in addition to amounts for this purpose under the heading "Moving to Work": Provided*, That [of the total amount available under this heading, \$25,000,000 shall be available to the Secretary to allocate pursuant to a need-based application process notwithstanding section 203 of this title and not subject to the Operating Fund formula at part 990 of title 24, Code of Federal Regulations to public housing agencies 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 public

housing agencies on a pro-rata basis pursuant to the Operating Fund formula at part 990 of title 24, Code of Federal Regulations]the amount of any forgone increases in tenant rent payments due to the implementation of rent incentives as authorized pursuant to waivers or alternative requirements of the Jobs-Plus initiative as described under the heading "Self-Sufficiency Programs" shall be factored into the PHA's general operating fund eligibility pursuant to the formula at 24 CFR Part 990: Provided further, That of the total amount available under this heading, up to \$30,000,000 shall be available until September 30, 2024 for competitive grants to PHAs including agencies participating in the Moving to Work (MTW) demonstration 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 \$23,000,000 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 \$40,000,000 shall be available until September 30, 2024 to support the costs of administrative and judicial receiverships and for competitive grants to PHAs including agencies participating in the MTW demonstration in receivership, designated troubled or substandard, or otherwise at risk, as determined by the Secretary, for costs associated with public housing asset improvement, repositioning, or recapitalization, in addition to other amounts for that purpose provided under any heading under this title; and for non-competitive grants to PHAs experiencing insolvency, as determined by the Secretary: 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 the Secretary to make grants, notwithstanding section 203 of this Act, to PHAs including agencies participating in the MTW demonstration 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 2021: Provided further, That of the total amount made available under this heading, \$35,000,000 shall be available until September 30, 2023 for competitive grants to PHAs including agencies participating in the MTW demonstration to evaluate and reduce lead-based paint hazards in public housing: Provided further, That of the total amount made available under this heading, up to \$30,000,000 shall be available until September 30, 2023 for competitive grants to PHAs, including agencies participating in the MTW demonstration, for full lead service line replacement, with eligibility limited to PHAs where the relevant public water system will undergo or has recently undertaken a comprehensive water main replacement program: Provided further, That for purposes of environmental review, a grant under the previous two provisos shall be considered funds for projects or activities under title I of the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) for purposes of section 26 of such Act (42 U.S.C. 1437x) and shall be subject to the regulations implementing such section. (Department of Housing and Urban Development Appropriations Act, 2020.)