

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2018 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>
2016 Appropriation	\$4,500,000	-\$61,466	...	\$4,438,534 ^a	\$4,037,057	\$4,385,361
2017 Annualized CR	4,500,000	294,791	-\$8,554 ^b	4,786,237 ^c	4,786,000	4,377,000
2018 Request	<u>3,900,000</u>	<u>-186,000</u>	...	<u>3,714,000^d</u>	<u>3,714,000</u>	<u>3,894,000</u>
Change from 2017	-600,000	-480,791	+8,554	-1,072,237	-1,072,000	-483,000

a/ Total resources and obligations for fiscal year 2016 includes \$61.5 million transferred from the public housing operating fund for subsidy payments for units converting under the Rental Assistance Demonstration (RAD).

b/ Public Law 114-254 requires a reduction from the fiscal year 2016 enacted budget authority of 0.1901 percent.

c/ Total resources and obligations for fiscal year 2017 includes an estimated \$110 million transferred for the implementation of RAD.

d/ Total resources and obligations for fiscal year 2018 includes an estimated \$186 million to be transferred for the implementation of RAD.

1. Program Purpose and Fiscal Year 2018 Budget Overview

The fiscal year 2018 President’s Budget request of \$3.9 billion is \$591 million less than the fiscal year 2017 Annualized CR level. This request represents an 80.7 percent proration against formula eligibility, and will allow the Department to continue to serve approximately 1.1 million units by providing operating subsidy payments to more than 3,000 Public Housing Authorities (PHAs) for the operation, management, and maintenance of public housing throughout the United States and its territories. The funding request reflects a set of policies, described further below, that reduce costs while continuing to assist current residents; these policies serve as a starting point as the Administration works towards a more comprehensive package of rental assistance reforms.

Key program outcomes include, but are not limited to:

- Preserving and sustaining the public housing portfolio in support of residents;
- Decreasing energy costs through regular maintenance and Energy Performance Contracting; and
- Leveraging federal resources.

Public Housing Operating Fund

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 nearly 1.1 million deeply affordable public housing units. The public housing stock constitutes a critical piece of 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 generally, as well as the working poor. On average, public housing units serve 2.17 residents with a median household income of \$14,538. For comparison, the national median income is \$65,700. 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 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
- Routine and preventative maintenance
- Anti-crime, anti-drug and security activities
- Operating costs for privately owned public housing units within mixed-finance
- 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 and viability of their properties

Public Housing Operating Fund

3. Justification

Public housing units provide affordable housing absent of market-driven factors, which assures affordability for low-income families. Public housing is a necessary housing resource in not only large metropolitan areas, but also in smaller, rural areas where public housing often times provides the only available safe, accessible, and affordable rental housing in the area.

The Operating Fund provides operating subsidy payments to more than 3,100 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.

Rental Assistance Demonstration (RAD)

HUD will continue the conversion of some Public Housing to long-term Section 8 contracts under the Rental Assistance Demonstration (RAD) program. Although RAD does not receive appropriated funds, rent levels and initial funding for the Section 8 contracts are dependent on public housing funding levels. While the 2018 Operating Fund level may slow the pace of conversions, many existing awardees will still be able to convert and undertake property improvements. Interested PHAs will need to evaluate the effect of conversions in a reduced funding environment on any remaining public housing stock.

Cross-cutting Rent Reform Proposals

The Budget proposes a set of policies in its core rental assistance programs to reduce costs while at the same time continuing to assist current residents, encouraging work, and promoting self-sufficiency. They also seek to provide administrative flexibilities and to streamline the complex and administratively burdensome calculation of income and rent. These policies serve as a starting point as the Administration works towards a more comprehensive package of rental assistance reforms for 2019. Changes to rental assistance programs included in the 2018 President's Budget include:

- An increase in the tenant contribution toward rent from 30 percent of adjusted income to 35 percent of gross income (i.e., income adjusted by exclusions but not deductions). Hardship exemptions, as defined by the Secretary, will be available for tenants. Note: The Department will implement this provision as a pilot in PBRA, 202, and 811 in 2018; it does not plan to implement this in the Public Housing or HCV programs in 2018.
- Establishing minimum tenant rental payments of \$50 per month, with hardship exemptions.

Public Housing Operating Fund

- Elimination of utility reimbursement payments to tenants, sometime referred to as "negative rents." These payments have occurred when tenant-paid utility costs exceeded the minimum rent due. Hardship exemptions, as defined by the Secretary, will be available for tenants.
- Expanded waiver authority for statutory or regulatory provisions related to public housing agency (PHA) administrative, planning, and reporting requirements, energy audits, income recertification, and program assessments.

Regulatory Reform and Programmatic Improvements

For PHAs to continue to serve the families currently housed, the Budget includes authorities for HUD to provide additional flexibilities to PHAs. These flexibilities will enable PHAs to manage their programs in a fiscally responsible manner while avoiding displacement of currently supported households. Many of the proposals for the public housing program provide additional flexibility for PHAs to be able to manage their limited resources more efficiently and effectively. For fiscal year 2018, HUD proposes to seek authority for the following programmatic changes:

- 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 within each jurisdiction in a challenging budgetary environment. Specifically, HUD seeks to waive statutory and regulatory provisions 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 using fiscal year 2018 and previous years funding, including the use of existing Operating Reserves for capital improvements. This flexibility would enable PHAs to focus scarce resources on local priorities without being constrained by the statutory limitations of each fund.

Public Housing Operating Fund

General Provisions

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

- Raising rent contributions to 35 percent of gross rents (Sec. 226).
- Instituting mandatory minimum rents of \$50 per month (Sec. 227).
- Elimination of utility allowance reimbursements (Sec. 228).
- Public Housing flexibilities (Sec. 230).
- Public Housing Capital and Operating Fund flexibilities (Sec. 233).

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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>2016 Budget Authority</u>	<u>2015 Carryover Into 2016</u>	<u>2016 Total Resources</u>	<u>2016 Obligations</u>	<u>2017 Annualized CR</u>	<u>2016 Carryover Into 2017</u>	<u>2017 Total Resources</u>	<u>2018 Request</u>
Operating Subsidy	\$4,500,000	...	\$4,500,000	\$4,037,057	\$4,491,446	\$404,791	\$4,896,237	\$3,900,000
PHA Financial Hardship Assistance .....	...	...	...	...	...	...	...	...
Rental Assistance Demonstration (transfer) .....	...	-\$61,466	-61,466	...	...	-110,000	-110,000	...
Research and Technology (transfer)
Total	4,500,000	-61,466	4,438,534	4,037,057	4,491,446	294,791	4,786,237	3,900,000

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

The fiscal year 2018 President's Budget includes the appropriation language listed below.

For 2018 payments to public housing agencies for the operation and management of public housing, as authorized by section 9(e) of the United States Housing Act of 1937 (42 U.S.C. 1437g(e)), 3,900,000,000, to remain available until September 30, 2019. Note.—A full-year 2017 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 Further Continuing Appropriations Act, 2017 (P.L. 114-254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

Note.—A full-year 2017 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 Further Continuing Appropriations Act, 2017 (P.L. 114-254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.