

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2017 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> |
|------------------------------------|-----------------------------|------------------------|-------------------------------------|------------------------------|--------------------|------------------|
| 2015 Appropriation | \$4,440,000 | -\$39,932 ^a | ... | \$4,400,068 | \$4,398,203 | \$4,413,956 |
| 2016 Appropriation | 4,500,000 | -58,000 ^b | ... | 4,442,000 | 4,442,000 | 4,368,000 |
| 2017 Request | <u>4,569,000</u> | <u>...</u> | <u>...</u> | <u>4,569,000^c</u> | <u>4,334,000</u> | <u>4,363,000</u> |
| Program Improvements/Offsets | +69,000 | +58,000 | ... | +127,000 | -108,000 | -5,000 |

- a/ Figure is net of the \$39.9 million transferred from the Public Housing Operating Fund for subsidy payments for units converting under the Rental Assistance Demonstration (RAD).
- b/ Figure is net of an estimated \$61 million that will be transferred for implementation of RAD.
- c/ Includes an estimated \$23 million in Budget Authority to be transferred to the Research and Technology (R&T) account, and an estimated \$212 million that will be transferred for implementation of RAD.

1. What is this request?

The Department requests \$4.569 billion for the Public Housing Operating Fund for fiscal year 2017, which is an increase of \$69 million from the fiscal year 2016 enacted level. This request, which represents an estimated 87 percent proration¹ against formula eligibility, will allow the Department to continue to serve approximately 1.1 million households (2.6 million residents) by providing operating subsidy payments to more than 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.

In addition to supporting operational needs, this request supports PHA administrative expenses, particularly those associated with implementing new Affirmatively Furthering Fair Housing regulations. Using tools provided by HUD, PHAs will provide an Assessment of Fair Housing (AFH). Through these assessments, PHAs will submit data and establish local goals and priorities based on racially or ethnically concentrated areas of poverty, disparities in access to opportunity, and disproportionate housing needs.

Key program outcomes include, but are not limited to:

- Increasing occupancy in public housing;

¹ Net of the estimated \$212 million HUD will transfer to the Tenant-Based or Project-Based Rental Assistance accounts in support of public housing Rental Assistance Demonstration (RAD) conversions.

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- Decreasing energy costs through regular maintenance and Energy Performance Contracting; and
- Leveraging federal resources.

The program supports the Department's strategic goals by:

- Addressing the need for quality affordable rental homes by maintaining or improving upon the 96 percent occupancy rate of habitable units;
- Promoting housing as a platform to improve quality of life through supportive services, crime prevention efforts and resident engagement activities; and
- Helping to build inclusive communities free from discrimination, especially by facilitating implementation of Affirmatively Furthering Fair Housing measures.

Proposals in the Budget

- Provide Additional Operating/Capital Fund Flexibility
- Revise the Threshold for Deduction of Medical and Related Care Expenses (associated savings estimated at \$23 million)
- Launch a Utilities Conservation Pilot

2. What is this program?

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 that constitute a critical piece of the housing market, providing homes for some of the nation's most vulnerable renters as well as local investment in economies. Local administration of federal funds allows communities freedom to tailor public housing to suit local needs – for example, by establishing preferences for the elderly, disabled, homeless veterans, homeless persons generally, as well as the working poor. At the national level, these units serve 2.6 million low- and extremely low-income residents with a median income of \$14,312 – compared to the national median of \$63,900². 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. About 40 percent of all households served include children. Further, fixed-income seniors or people with disabilities head well over half of all households.

The Public Housing Operating Fund covers day-to-day operational expenses associated with public housing as well as the administrative and program implementation expenses that PHAs are required to undertake under the 1937 Housing Act and program regulations. Funds are applied in a number of ways:

² http://www.huduser.org/portal/datasets/il/il14/Medians2014_v2.pdf

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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 projects
- Energy costs
- Resident supportive services, support coordinators, and participation activities
- Insurance
- Debt service incurred to finance unit rehabilitation and development

Administration and Program Implementation

- Annual recertifications
- Timely rent collection
- Submission of annual audited and unaudited financial statements to HUD
- Asset management over the physical and financial integrity of the program
- Validation of community service requirement completion
- Annual unit inspections
- Prioritization and planning for the long-term capital needs and viability of their properties

Demands placed on PHAs go well beyond the activities that other real estate owners and operators, including those in other HUD supported multifamily programs, perform. To that end, 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.

Beyond operating and administrative expenses, the Operating Fund supports PHA involvement 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. Several key initiatives are described below.

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 budget enables HUD to continue the strategies that support the four major goals to prevent and end homelessness outlined below:

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1. build on past progress to prevent and end chronic homelessness;
2. prevent and end homelessness for veterans;
3. prevent and end family and youth homelessness; and
4. set a path to ending all types of homelessness.

Across the Public Housing and Housing Choice Voucher program offices, HUD has 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 continues to conduct regional meetings with PHAs and their Continuum of Care partners to highlight best practices and successful local initiatives. Staff also collect, interpret data, and develop guidebooks and notices.

Energy and Sustainability Initiatives

The President has set an ambitious goal of cutting energy waste in half over the next 20 years. The President's plan calls on federal agencies to rapidly increase investments in energy productivity, increase the use of renewable energy technology within the Public Housing portfolio, ramp up energy-efficiency standards, and deploy the tools and technology needed to engage consumers, the private sector, and government leaders. Building upon the work of the Energy Performance Contracting (EPC) program, the Budget includes a proposal for a Utilities Conservation Pilot (see below) that would expand opportunities for PHAs of all sizes to undertake needed energy conservation measures.

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.

Moving-to-Work (MTW) Demonstration

Moving-to-Work (MTW) is a demonstration program that provides PHAs the opportunity to design and test innovative, locally designed strategies that use federal dollars more efficiently, helps residents find employment and become self-sufficient, and increases 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 required to use the opportunities presented by MTW to inform HUD about ways to better address local community needs. The Department will implement an MTW expansion of

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100 public housing agencies over a 7-year period. In doing so, the Secretary will establish a research advisory committee, which will advise the Secretary with respect to specific policy proposals and methods of research and evaluation for the demonstration.

Rental Assistance Demonstration

The Department continues its Rental Assistance Demonstration (RAD) to test new preservation tools for the HUD-assisted housing stock. It will use its statutory authority under the Consolidated and Further Continuing Appropriations Act of 2012 (Public Law 112-55, as amended) to transfer amounts from the fiscal year 2017 Public Housing Operating Fund and Capital Fund appropriations to the Tenant-Based Rental Assistance (TBRA) and Project-Based Rental Assistance (PBRA) accounts to fund renewal costs for public housing units converting under RAD in calendar year 2016. For additional information, refer to the Rental Assistance Demonstration justification.

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

HUD's *Worst Case Housing Needs: 2015 Report to Congress* reveals that among very low-income renter households that lacked assistance in 2013, 7.7 million had worst case housing needs resulting from severe rent burden (paying more than one-half of their monthly income for rent) or living in severely inadequate housing units. From 2003-2013, worst case needs increased by 49 percent as public-sector housing assistance and private-sector housing development have substantially failed to keep up with the growing demand for affordable rental housing.

Given the magnitude of unmet need, supporting existing affordable housing is crucial. The requested \$4.569 billion level would support the operating formula and represents an estimated proration of 87 percent of formula eligibility.

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 affordable rental housing.

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).

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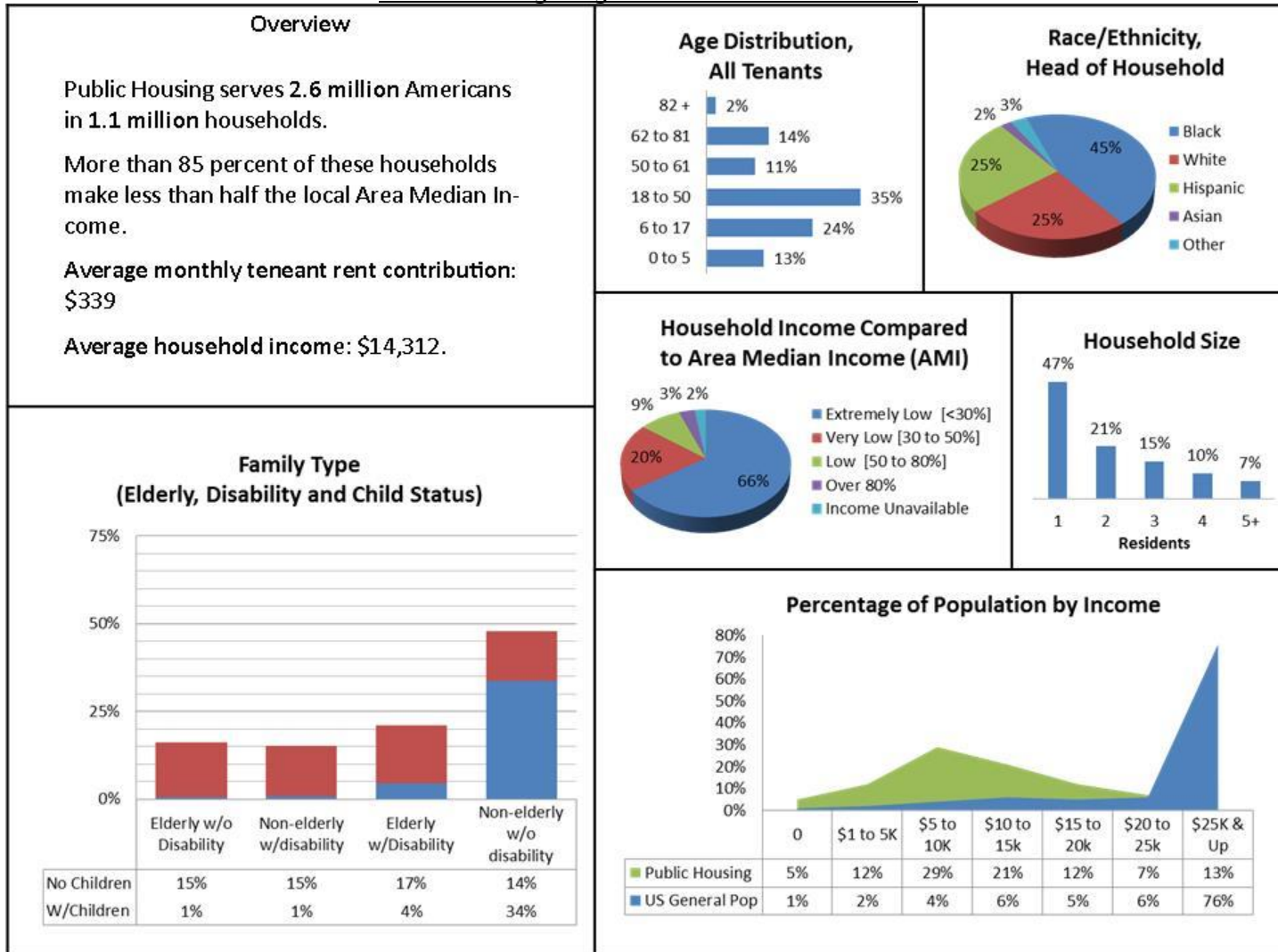
Four years ago, the Department increased public housing occupancy to more than 1.091 million units. The program's increased occupancy highlights the Department's focus on making the most efficient use of program resources. Working with HUD, PHAs have become even more successful at ensuring that all affordable housing resources are available to meet surging demands within their community. Because of the recent recession and foreclosure crisis, increasing numbers of families face shrinking household incomes, altered employment opportunities, and are more likely to rent rather than own their home. Not only would funding at a lower level potentially reduce the number of families served, it will also lead to the following negative consequences:

- Diminished quality of life for residents;
- Increased capital needs;
- Longer periods of vacancy;
- Increased worst-case housing needs and homelessness;
- Diminished community security; and
- Job losses.

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). While PHAs can voluntarily convert to project-based Section 8 funding under RAD, Congress has provided no additional, incremental subsidy to facilitate such conversions. Properties convert at their existing subsidy levels, which — in the 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.

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Public Housing Program Tenant Characteristics



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4. How do we know this program works?

Recently, the Department increased occupancy within the Public Housing program by over 21,000 additional families. The program has achieved a sustained 96 percent occupancy rate, which is beyond the level commonly attained within the rental housing market. Our goal is to maintain this higher occupancy rate and not lose ground as we continue to maximize the availability of this important affordable housing resource.

The Department intends to take measures to not only serve more families, but 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 – an undertaking that helps PHAs reduce utility costs, prepare for natural disasters, protect public health and preserve affordable housing. HUD exceeded its most recent two-year Annual Performance Goal of 159,000 energy efficient and healthy units by completing 161,400 units, of which almost half (78,000) were public housing units.

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 PHAs. In addition to maintaining the approximately 20,000 annual property inspections undertaken to ensure that public housing is safe, sanitary and in good repair, 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. 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 to further reduce income-reporting errors.

HUD Oversight, Monitoring, and Risk Assessment of PHAs

HUD's Office of Public and Indian Housing (PIH) has recognized that a more proactive risk analysis and identification model is necessary in order to facilitate earlier detection of problems, target interventions and improve oversight at PHAs. Accordingly, PIH is continuing to move forward with the Comprehensive National Risk Assessment and the Public Housing Agency Recovery and Sustainability initiative (PHARS). Collectively, PIH believes these efforts will improve its ability to oversee and monitor the more than 4,000 PHAs that administer these programs.

This strategy prioritizes PHAs nationally based on risk with an emphasis on recent data and historic trends. Using quantitative and qualitative analysis to determine financial, physical, governance, and management risk, PIH will develop mitigation strategies to address the risk based on the severity and available resources.

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The mitigation strategy has been built from the PHARS model, a place-based approach to turning around troubled and substandard PHAs, which focused on identifying the root cause and executing a recovery strategy focused on outcomes.

Field Offices will focus on individual PHAs with the greatest risk at both the entity and project level, using both on site and remote monitoring tools. For the Public Housing program, and specific to the Operating Fund, this will include looking at occupancy rates, as well as metrics like tenant account receivables and physical inspection scores.

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. The Department will continue to work to validate data entered into the PIC system on a routine basis, to guarantee the quality, accuracy and reliability of the data, which drives policy and program decisions at the national level.

5. Proposals in the Budget

- Provide Additional Operating/Capital Fund Flexibility to all Public Housing Authorities: The 2017 Budget proposes to allow PHAs with more than 250 public housing units greater flexibility to use their public housing Operating and Capital funds interchangeably. In addition, HUD is proposing to allow PHAs the flexibility to use their Operating Reserve funds not only for operating purposes, but also for capital improvements.

Larger PHAs are restricted to using funds from Capital Fund and Operating Fund grants for the prescribed eligible uses of §§ 9(d) and (e), respectively, of the 1937 Act irrespective of the nature of an individual PHA's needs, except that they may use up to 20 percent of their annual capital grants for eligible Operating Fund expenses.

Specifically, the 1937 Act limits the use of Operating Funds for capital improvements to only paying debt service rather than for direct expenditure on the capital improvements, even when available Operating Funds are sufficient to meet the need. As a result, PHAs must pay financing charges to use existing funds for rehabilitation and development of the housing stock. Typically, these transactions are fully collateralized with on-hand operating reserves, meaning the PHA is effectively paying the financing fees and incurring a liability to access their HUD funds. With a \$26 billion backlog in capital needs, PHAs need greater flexibility to address as much need as possible with the limited resources available.

HUD proposes to allow PHAs with more than 250 public housing units to transfer up to 30 percent of their Capital Funds to their Operating Fund. PHAs would be allowed to use these funds for operating expenses. In addition, such PHAs would be allowed to use their operating reserves for capital expenditures.

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This proposal would not increase HUD or PHA expenditures, but shift funding. Based on the fiscal year 2015 allocation of funds, this would impact 798 PHAs. Using the fiscal year 2017 request for funding, approximately \$154 million could be transferred from the Capital Funds of these PHAs to their Operating Funds and Operating Fund reserves. (Sec. 224)

- Revise the Threshold for Deduction of Medical and Related Care Expenses (associated savings estimated at \$23 million). This provision would generate estimated savings of \$23 million in fiscal year 2017. The change would increase the threshold for the deduction of medical and related care expenses from 3 to 10 percent of family income. This provision was included in the Department's fiscal year 2014-2016 budget requests, and is repeated for 2017. (Sec. 229)
- Utilities Conservation Pilot. This provision was adopted by the fiscal year 2016 Senate Bill and is again being proposed. HUD proposes to implement a pilot program modeled on the Operating Fund's Frozen Rolling Base with a portion of the savings accruing to the federal government. The objectives are to:
 - Extend energy incentives to a broader range of PHAs,
 - Reduce the amount of financing that would be required to implement repairs, and
 - Significantly streamline the application process.

The Department believes more PHAs will be able to undertake energy conservation measures (ECMs) and reduce their energy consumption while also addressing a portion of public housing's \$26 billion backlog of capital needs. HUD is committed to helping PHAs find solutions to substantially reduce their utility and water consumption, thereby reducing program costs, and decrease their environmental impact. The Energy Performance Contracting (EPC) Program has been very successful at helping large and medium sized agencies leverage energy savings to finance ECMs. However, current budgets make the requirement to take on debt to finance repairs difficult. Further, many small agencies have been unable to secure financing based on the size of their transaction. This pilot could reduce the need to take on debt in many cases, and, potentially, eliminate the need entirely in others.

The Utility Conservation Pilot would allow PHAs to freeze their rolling base at current consumption levels if they commit to achieving a reduction in their energy consumption. The time period for freezing the base would be based on the percentage of reduction the PHA estimates it will achieve. The frozen rolling base would be reduced by one percent a year until it is equal to a PHA's actual consumption, for up to a maximum of 20 years.

For example, if a PHA commits to achieve a five percent reduction in consumption, their utility reimbursement under the Operating Fund would gradually roll down over a period of 5 years. In year one, the PHA would receive 100 percent of the

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subsidy calculated using the frozen rolling base. In year 2, the PHA would receive 99 percent until finally, in year 6 the PHA's operating subsidy would reflect the PHA's actual energy consumption at 95 percent of their original consumption level.

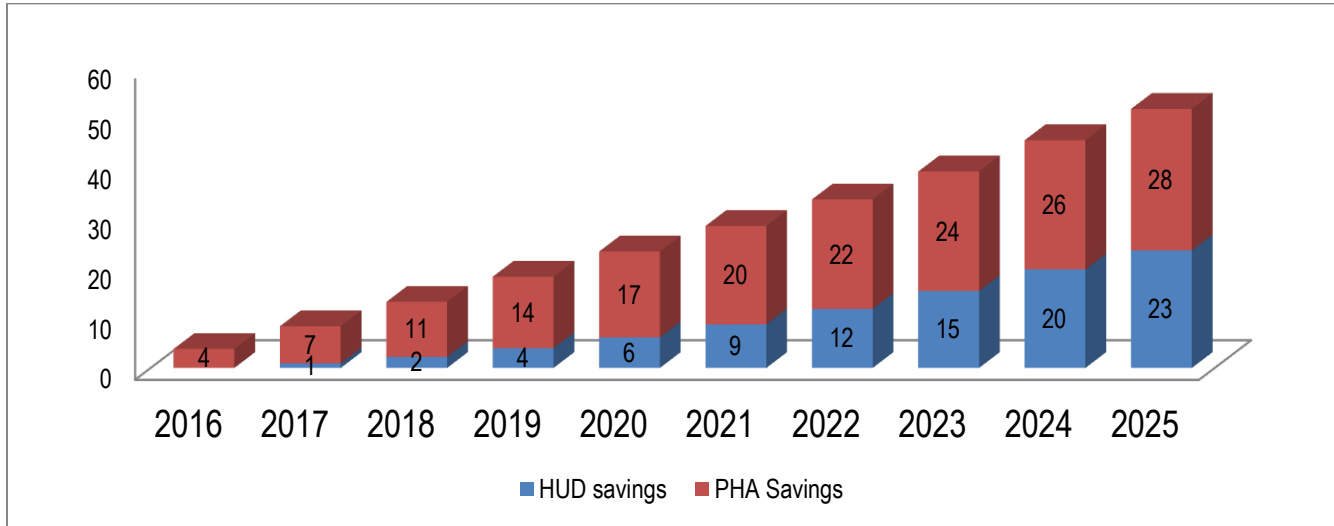
Models for this pilot show estimated cost savings over 10 years from 2016 - 2025 of potentially \$265 million. Of these savings, HUD would retain \$92 million over the 10-year period. This includes "avoided cost" savings of \$26.9 million due to replacing aging or failing equipment and facilities. PHAs will reduce their carbon emissions by 586,000 tons of CO2 and the pilot stands to create 2,227 jobs over the 10-year period. These estimates are based on the following conservative assumptions:

- 2.5 percent or 28,436 public housing units will join the pilot annually starting in 2016, with 284,000 units over 10 years;
- PHAs achieve a reduction of energy consumption equivalent to 11 percent of total amount they spend on energy costs based on a multifamily archetype. Eleven percent savings are achieved by year 12 which is the typical project term for current PHA ECM contracts;
- PHAs invest \$800 in capital costs per unit annually, with a \$227 million investment over 10 years. (Sec. 240)

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Energy Utility Cost Savings from PIH's Utility Conservation Pilot (\$M)

Including energy utility cost savings and avoided cost savings



Total Cumulative Savings (2016-25): \$265M
HUD Share: \$92M
HUD Share (energy utility costs): \$65M
HUD Share (avoided costs): \$27M

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| OPERATING FUND FORMULA ELIGIBILITY | | | | |
|---|---|-----------------------|-------------------------|-------------------------|
| # | Description | Actual FY 2015 | Estimate FY 2016 | Estimate FY 2017 |
| 1 | Non-Utility Expense Level (PEL) | \$5,343,115,403 | \$5,500,929,749 | \$5,586,332,742 |
| 2 | Utilities | 1,757,024,673 | 1,715,352,735 | 1,736,960,927 |
| 3 | Less: Tenant Income | <u>-2,998,096,638</u> | <u>-3,084,623,412</u> | <u>-3,139,084,484</u> |
| 4 | Public Housing Operating Fund Base (line 1-3) | 4,102,043,438 | 4,131,659,072 | 4,184,209,184 |
| 5 | MTW Alternative Formula Grant, PHAs not in Base | 554,335,189 | 565,817,689 | 577,538,038 |
| 8 | Public Housing Add-ons | | | |
| 9 | Elderly/Disabled Coordinators | 16,206,242 | 16,718,359 | 17,246,659 |
| 10 | Resident Participation | 25,317,975 | 25,266,459 | 25,215,048 |
| 11 | Energy-Add On for Loan Amortization | 42,999,370 | 44,358,150 | 45,759,868 |
| 12 | Payments in Lieu of Taxes | 140,403,389 | 144,840,136 | 149,417,084 |
| 13 | Cost of Independent Audit | 25,167,906 | 25,963,212 | 26,783,649 |
| 14 | Asset Management Fee | 38,226,576 | 38,148,794 | 38,071,170 |
| 15 | Information Technology Fee | 25,605,262 | 25,553,161 | 25,501,166 |
| 16 | Asset Repositioning Fee | 35,323,174 | 36,439,386 | 37,590,871 |
| 17 | Mutual Help and Turnkey Units | 174,411 | 179,922 | 185,608 |
| 18 | Estimated Appeals | | 10,000,000 | 10,000,000 |
| 19 | Stop Loss | <u>141,930,786</u> | <u>141,641,991</u> | <u>141,353,784</u> |
| 20 | Subtotal Operating Fund Base (line 4-19) | 5,147,733,718 | 5,206,586,331 | 5,278,872,129 |

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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>2015 Budget Authority</u> | <u>2014 Carryover Into 2015</u> | <u>2015 Total Resources</u> | <u>2015 Obligations</u> | <u>2016 Budget Authority</u> | <u>2015 Carryover Into 2016</u> | <u>2016 Total Resources</u> | <u>2017 Request</u> |
|--|------------------------------|---------------------------------|-----------------------------|-------------------------|------------------------------|---------------------------------|-----------------------------|---------------------|
| Operating Subsidy | \$4,440,000 | ... | \$4,440,000 | \$4,398,203 | \$4,500,000 | ... | \$4,500,000 | \$4,357,000 |
| PHA Financial Hardship Assistance | ... | ... | ... | ... | ... | ... | ... | ... |
| Rental Assistance Demonstration (transfer) | ... | -\$39,932 | -39,932 | ... | ... | -\$58,000 | -58,000 | 212,000 |
| Research and Technology (transfer) | ... | ... | ... | ... | ... | ... | ... | [23,000] |
| Total | 4,440,000 | -39,932 | 4,400,068 | 4,398,203 | 4,500,000 | -58,000 | 4,442,000 | 4,569,000 |

Public Housing Operating Fund

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

The fiscal year 2017 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

For [2016] 2017 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)), [\$4,500,000,000] *\$4,569,000,000*, to remain available until September 30, [2017] 2018. (*Department of Housing and Urban Development Appropriations Act, 2016.*)