

**PUBLIC AND INDIAN HOUSING  
PUBLIC HOUSING OPERATING FUND  
2015 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>
2013 Appropriation .....	\$4,262,010	\$4,258	-\$207,829	\$4,058,439	\$4,058,170	\$4,067,857
2014 Appropriation/Request .....	4,400,000	...	...	4,400,000 <sup>a</sup>	4,398,668	4,224,000
2015 Request .....	<u>4,600,000<sup>b</sup></u>	<u>...</u>	<u>...</u>	<u>4,600,000</u>	<u>4,485,659</u>	<u>4,462,000</u>
Program Improvements/Offsets .....	+200,000	...	...	+200,000	+86,991	+238,000

a/ This number includes an estimated \$1.3 million that will be transferred from the Public Housing Operating Fund for implementation of the Rental Assistance Demonstration (RAD).

b/ This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent or \$15 million, whichever is less, of Budget Authority as well as an estimated \$104 million that will be transferred for implementation of RAD.

**1. What is this request?**

The Department requests \$4.6 billion for the Public Housing Operating Fund for fiscal year 2015, which is an increase of \$200 million from the enacted fiscal year 2014 level. This request, which represents an 87 percent proration, will allow the Department to continue to serve 1.1 million households (2.6 million residents) by providing operating subsidy payments to over 3,100 Public Housing Authorities (PHAs) for the operation, management, and maintenance of publicly owned affordable rental housing throughout the United States and its territories.

This increased request is necessary to meet the operating needs of critical public housing properties throughout the country. The requested funding reflects inflation adjustments for Project Expense Levels (PELs), Utility Expense Levels (UELs), and tenant incomes and their corresponding rent contributions<sup>1</sup>, which offset formula eligibility. This request also reflects \$63 million in anticipated

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<sup>1</sup> The PEL inflation factor (3.6 percent) incorporates economic assumptions from the Office of Management and Budget (OMB) for pay/non-pay cost indices and is based on a weighted average. For utilities, a blended methodology using Consumer Price Index cost data and OMB forecasts yields an inflation factor of 2.41 percent. The inflation factor for tenant income (0.66 percent) was validated against tenant income changes reported in the Public and Indian Housing Information Center (PIC) and found to be reasonable based on recent historical trends. Eligible Unit Months (EUMs) were derived from the most recent Public Housing unit occupancy data reflected within HUD's systems and adjusted for anticipated changes in the inventory expected to become effective in 2015.

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savings in fiscal year 2015 from changes to the flat rent policy (enacted in fiscal year 2014) and an increase in the medical expense exclusion threshold from 3 to 10 percent (\$23 million in savings).

Effective administration of the Public Housing Operating Fund is dependent on the operating resources requested in the Salaries and Expenses justification. For fiscal year 2015, \$68.8 million is requested to operate this program account, an increase of \$3.5 million. The following is a breakout of Salaries and Expenses for the Operating Fund:

- Personnel Services – \$ 66.8 million.
- Non-Personnel Services – \$2.0 million.
- FTE – 494.

PIH has 12 functional areas to which employees devote their time. The primary functions to which PIH employees report in support of the Operating Fund include but are not limited to Public Housing Operations and Monitoring; Public Housing Modernization, Development & Repositioning; Resource Formulation, Allocation and Financial Management; and Financial & Physical Program Integrity.

Key outcomes of the Operating Fund program are:

- increasing occupancy in public housing;
- decreasing energy costs; and
- leveraging Federal resources.

## Legislative Program Summaries

- increase the threshold for deduction of medical and related care expenses (associated estimated savings of \$23 million)
- improve the process for establishing Fair Market Rents (FMRs)
- full fungibility of Operating and Capital funds

## **2. What is this program?**

Authorized by Section 9 of the United States Housing Act of 1937, the Public Housing Operating Fund program supports the operation of 1.1 million units of public housing, contributing to the long-term viability and preservation of the portfolio. Of the

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The increase in estimated eligibility is due primarily to inflation factors, but is mitigated by increased rent contributions and a projected net reduction of units through demolitions and dispositions out of the inventory and conversions under the Rental Assistance Demonstration.

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families served by the program, nearly 60 percent are elderly and/or disabled households on a fixed income. The program also allows communities to consider their local priorities for serving housing needs, and to establish preferences for the elderly, disabled, homeless veterans, homeless persons generally, as well as the working poor. In addition, Public Housing remains a key component of the overall effort to eliminate homelessness, including veteran's homelessness.

Operating Fund eligibility for PHAs is determined based on a formula. That formula was established through negotiated rulemaking in 2007 and is codified at 24 CFR 990. A 2003 study by the Harvard University Graduate School of Design (the "Harvard Cost Study") provided the basis for negotiations. The Harvard Cost Study examined Public Housing operating expenses at a well-run public housing authority relative to Federal Housing Administration (FHA) insured affordable rental housing.

When combined with tenant rents and funded at 100 percent of formula, this subsidy provides PHAs with the resources needed to manage, maintain, and operate their properties and contributes to the provision of supportive services for residents.

Operating Fund subsidy eligibility has four primary cost drivers:

1. the allowable Project Expense Levels (PEL), which were baselined against comparable FHA properties;
2. the reimbursement cost of utilities, or the Utilities Expense Level (UEL);
3. tenant incomes and their corresponding rent contributions; and, finally
4. the number of months a unit is eligible for funding, or the Eligible Unit Months (EUMs).

The Public Housing program provides deeply affordable, publicly owned housing units. It is an essential piece of the housing market that provides support for some of the nation's most vulnerable renters as well as local economies. Wage-earners residing in public housing earn too little to afford market-rate housing, yet they are contributing members of the local communities in which they reside. The program conveys direct and indirect benefits on those communities in the form of employment opportunities, either at the PHA or associated with the provision of services to residents, and in terms of the goods and services purchased by PHAs.

The Public Housing program serves many of the most vulnerable renter households in the nation with 69 percent of all assisted households having incomes that fall below 30 percent of their local Area Median Income (AMI) or considered extremely low-income. The vast majority of public housing residents cannot afford to pay enough toward rent to cover the costs of operating a property. The Operating Fund makes it possible for local communities to maintain their public housing properties. Absent operating subsidy resources, nearly 1.1 million affordable housing units would be lost over time. Residents would be at risk of homelessness. Local communities would face the challenge of responding to the enhanced demand for deeply affordable rental housing, facing tough decisions about the allocation of other — already scarce — federal, state, and local resources.

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Originally designed to house middle-class families struggling to find work during the Great Depression, over the years the program has come to serve greater numbers of vulnerable, low- and extremely low-income families, as a result of policy shifts and broader market dynamics. Currently, the program serves families with an average household income of approximately \$13,800. In comparison, the median family income in the United States is \$60,000. Extremely low-income families (families earning less than 30 percent of an area's median income) make up 69 percent of public housing households. Families whose incomes are low enough to qualify for public housing increasingly struggle to find other sources of housing that they can afford. Nearly 60 percent of the families who reside in public housing are headed by a person who is elderly, disabled, or both. More than 40 percent of all households served include children. The average household contributes more than \$200 a month toward rent and utilities.

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

To meet the needs of vulnerable families and the statutory and regulatory requirements of the program, PHAs must perform admissions and intake screenings that include criminal background checks, annual recertifications to ensure families are continuously eligible for assistance, validation that those assisted households who are subject to a community service requirement have satisfied that obligation, activities related to tenant self-reliance/self-sufficiency services the agency provides, and facilitate resident engagement efforts. The PHA must also respond to tenant requests, monitor their activities with regard to lease and program requirements, and conduct timely rent collections. When necessary, PHAs have the undesirable task of eviction for violations of program requirements and lease provisions, including non-payment of rent. This process requires the agency to implement resident protections, including providing a grievance hearing process to ensure that the action is appropriate, the information upon which the decisions is based is accurate and to provide an opportunity to consider mitigating circumstances. In addition to their occupancy management activities, PHAs are the stewards of a real estate portfolio and must serve as asset managers over the physical and financial integrity of the program and its assets. At the PHA level, the Department began transitioning the portfolio to an asset management model in 2007. As asset managers, PHAs are required to perform annual inspections of their units to make certain that they remain in a decent, safe, and sanitary condition and ensure that the agency and its properties are compliant with all applicable federal, state, and local safety codes. In addition to conducting their inspections, the agency must submit to HUD's physical inspections process as part of HUD's ongoing assessment of the properties' physical condition. PHAs must practice good stewardship over the federal resources provided to their agency and submit annual audited and unaudited financial statements to HUD, which also become part of HUD's assessment of PHA performance under the Public Housing Assessment System (PHAS) that is used to evaluate PHA performance on an annual basis.

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Beyond conducting standard maintenance and preventative maintenance activities, PHAs must prioritize and plan for the long-term capital needs and viability of their properties. Though substantially limited in its ability to meet the estimated capital needs backlog of up to \$26 billion, the Capital Fund serves as a PHA's primary resource for addressing capital needs and accrual. In addition, PHAs can leverage the Operating Funds under the Operating Fund Financing Program to pay the debt service associated with modernization and development activities, including mixed-finance development.

Public Housing Operating Funds are used to support:

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

The current housing crisis underscores the broad impact housing has on peoples' lives. The importance to families and communities of quality, stable, affordable rental housing has never been more apparent. Reliable funding for the public housing program establishes a stable foundation for residents, supporting their efforts to achieve their goals and increase their economic security and self-sufficiency.

HUD is engaged in several priority initiatives to ensure the long-term preservation and sustainability of the public housing portfolio and that grantees are good stewards of federal resources. 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

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within the rental assistance programs, both Public Housing and Tenant-Based Rental Assistance, to serve those who are homeless, near homeless, or at risk of becoming homeless, including homeless veterans. The proposed fiscal year 2015 Budget enables HUD to continue the strategies that support the four major goals to prevent and end homelessness outlined below:

1. build on past progress to prevent and end chronic homelessness by 2015;
2. prevent and end homelessness for veterans by 2015;
3. prevent and end family and youth homelessness by 2020; and
4. set a path to ending all types of homelessness.

As part of our efforts to better understand the issue and the opportunities, we are mining our internal systems to better know how many homeless persons PHAs currently serve. What we now understand is that housing authorities do a lot to prevent homelessness within their communities and we must do a better job of capturing the data, providing guidance about reporting this information and the flexibilities that currently exists to serve these households, and provide technical assistance and best practices more broadly.

Across the Public Housing and Housing Choice Voucher program offices, 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.

To that end, in 2013, the Department and USICH organized two national conventions to share best practices and identify barriers in serving families experiencing homelessness as well as bring together local Continuums of Care.

In support of the Homelessness Initiative, the Department provides technical assistance to PHAs, and develops guidebooks to share best practices. On June 10, 2013, the Office of Public and Housing issued Notice PIH 2013-15 (HA) titled, "Guidance on housing individuals and families experiencing homelessness through the Public Housing and Housing Choice Voucher programs." The notice provides strategies that PHAs can pursue to expand housing opportunities for individuals and families experiencing homelessness through the Public Housing and HCV programs. This notice clarifies the definition of homelessness for the purpose of reporting, and provides guidance on HUD policies and program regulations.

Through our engagement of PHAs and Continuums of Care, HUD has seen an increase in the numbers of homeless families served by the Public Housing program. In fiscal year 2012, PHAs reported housing 3,958 families experiencing homelessness. In the first 2 fiscal quarters of 2013, PHAs housed 2,096 families experiencing homelessness. At the same time, new public housing admissions dropped by 5.5 percent overall, indicating that families experiencing homelessness are benefiting from greater program access even as overall new admissions are decreasing as a result of fewer families leaving public housing.

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### 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. While the need to cut energy waste is not new to the Public Housing program - Public Housing's Energy Performance Contracting Program (EPC) has been at the forefront of this effort for more than 25 years - the President's goal reiterates the need to undertake new strategies to leverage Public Housing resources to reduce energy waste. Building upon the work of the 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.

One of the Department's Agency Performance Goals (APG) is to complete cost-effective energy, green, and healthy retrofits (APG 4). The Public Housing Program's Energy Performance Contracting (EPC) Program contributed nearly half of the 119,965 Public and Indian Housing (PIH) energy-efficient units over a 2-year period, which helped the Department exceed its APG 4 goal and resulted in 201,444 energy, green, and healthy retrofit units overall. Through its EPC program, Public Housing has contributed the lion's share of all of the Department's affordable energy efficient units.

Working with PHAs to develop innovative and actionable performance contracts has become more challenging given that a good majority of large agencies have already implemented an EPC and addressed the "low hanging fruit" energy conservation measures. Continuing to increase the supply of energy-efficient units requires technical assistance and policy guidance as well as exploiting opportunities among underserved small PHAs. The Department's strategy to achieve its targets includes conducting regional communications to increase PHA awareness of the program's flexibility and current guidance, providing technical assistance tools to facilitate EPC project planning and implementation among small agencies, as well as examining opportunities for the Department to grant increased flexibility within our current statutory framework.

The proposal review process and monitoring associated with the EPC program has increased in complexity as new energy conservation measures emerge and energy companies and PHAs push the possibilities in order to transform the Public Housing program's aged housing stock. Success in their efforts will improve the quality of life among families served, leverage current program resources to reduce their carbon footprint and replace dated systems, all while producing long-term savings as utility consumption decreases.

### Moving-to-Work

In addition to its standard program operations, several PHAs operate their public housing program pursuant to a Moving-to-Work (MTW) agreement.

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MTW is a demonstration program that provides PHAs the opportunity to design and test innovative, locally designed strategies that use federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. MTW gives PHAs exemptions from many existing public housing and voucher rules and more flexibility with how they use their federal funds. MTW PHAs are expected to use the opportunities presented by MTW to inform HUD about ways to better address local community needs.

## 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) to transfer amounts from the fiscal year 2015 Operating Fund and Capital Fund appropriations to the Tenant-Based Rental Assistance (TBRA) or Project-Based Rental Assistance (PBRA) accounts to fund renewal costs for public housing units converting under RAD in calendar year 2014. For additional information, refer to the Rental Assistance Demonstration justification.

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

In August 2013, HUD released its biennial Worst Case Housing Needs Report. HUD found that the number of very low-income renters facing severe housing problems continues to grow. In 2011, nearly 8.5 million households had worst case housing needs, up from 7.1 million in 2009. This represents a 19 percent increase since 2009 and 43.5 percent since 2007. Worst case needs are defined as renters with very low-incomes (below half the median in their areas) who do not receive government housing assistance and who either paid more than their monthly incomes in rent, lived in substandard conditions, or both. Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas. In addition, large numbers of worst case needs were also found across various household types including families with children, senior citizens, and persons with disabilities.

As of the end of fiscal year 2013 through increased efforts between the Office of Field Operations and PHAs, the Department increased public housing occupancy to more than 1.091 million units, an increase of more than 9,300 units. The program's increased occupancy highlights the Department's focus on making the most efficient use of program resources. Working with PHAs, agencies have become even more successful at ensuring that all affordable housing resources are available to meet growing demands within their community. As a country, we must continue to invest in affordable housing, because the demand for rental housing has surged. As a consequence 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.

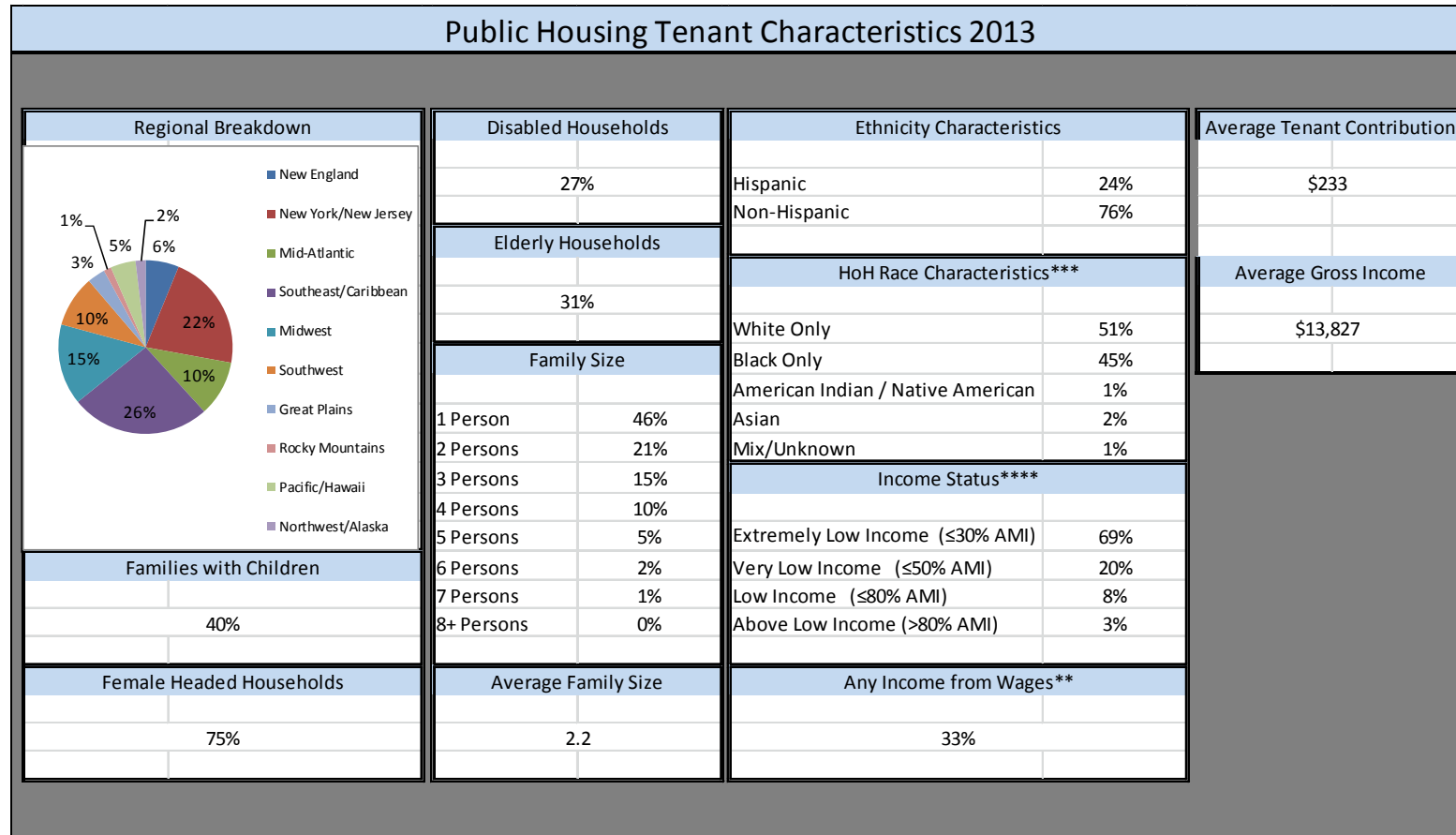


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The Department has been working toward several goals identified in its Strategic Plan. While achievement of these goals depends on strong performance across several programs, adequate funding of the public housing program is critical to success in several key areas:

- “Meet the Need for Quality Affordable Rental Homes” (Goal 2);
- “Utilize Housing as a Platform of Improving Quality of Life” (Goal 3); and
- “Build Inclusive and Sustainable Communities Free From Discrimination” (Goal 4).

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Source: 2013 Public and Indian Housing Information Center (PIC) data  
 HOH is head of household; AMI is Area Median Income  
 Wages from non-elderly, non-disabled households  
 Average Tenant Contribution is Operating Fund actual formula income per unit month for 2013

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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. A reduction in operating resources would likely result in longer response times for maintenance and repair requests, could negatively affect the ability of the PHA to provide proper upkeep of common areas and property grounds, and compounded by the potential for reductions in security measures could reduce the quality of the living environment for program participants and neighborhood residents. In some instances, units may reach such a level of disrepair that they fall into a state of disrepair, obsolescence, and/or removal from the inventory thereby reducing the supply of affordable housing and leaving vulnerable families at risk of homelessness.
- Increased capital needs. To sustain their operations, PHAs may be forced to transfer Capital Funds over to their Operating Fund, resulting in the deferral of maintenance activities and contributing to the accrual of additional capital repair and replacement needs. With an estimated capital needs backlog above \$26 billion, the use of Capital Funds to support operations jeopardizes the long-term viability of these affordable housing units.
- Longer periods of vacancy. Absent adequate funding to support unit turnover, maintenance resources including staffing and supplies, and admissions screening, units that become vacant will remain vacant for extended periods of time, depriving eligible families of housing and reducing the supply of affordable housing resources in local communities.
- Increased worst-case housing needs and homelessness. If PHAs choose to admit higher-income families to cover a shortfall, it may increase the number of families with worst-case housing needs or that become homeless.
- Diminished community security. Public housing residents and families in the local community could be placed at risk if PHAs scale back on security which is supported by the operating subsidy.
- Job losses. Within real estate, including the private rental market, staff and utilities unequivocally represent the largest operating cost drivers. If PHAs are forced to cut operating expenses, jobs will be lost and local communities may see an increase in their local supply/demand imbalance for affordable housing resources as well as a surge in the demand for social services as previously employed households seek assistance.

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). Though Congress provided the authority for PHAs to voluntarily convert to project-based Section 8 funding under RAD, Congress provided no additional, incremental subsidy to facilitate such conversions. Properties convert at their existing subsidy levels, which — in the interest of preservation — must be demonstrably adequate to address capital needs without undermining long-term operating sustainability. To the extent existing subsidy levels are reduced, it will reduce the pool of public housing properties that are eligible for conversion through RAD.

#### **4. How do we know this program works?**

Among the sub-goals under Goal 2 is to “expand the supply of affordable rental homes where most needed.” By the end of 2015, the public housing program is expected to serve additional families through the implementation of policies intended to reduce vacancies and increase monitoring and technical assistance being provided to PHAs, as well as other development and rehabilitation activities. As part of the Department’s goals in fiscal years 2011 and 2012, the Department increased occupancy within the Public Housing program by over 21,000 additional families using these strategies. The program has achieved a sustained 96 percent occupancy rate, which is beyond the level commonly attained within the rental housing market. Our goal in 2015 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 meet this goal that will not only have the benefit of serving more families, but will also improve the overall management and oversight of the program. While working toward identifying goal targets, the Department completed a thorough analysis of its policies, a comprehensive review of data, and other steps needed to increase capacity building. Moving forward, this new information will enable the Department to be more confident in linking performance standards to the budget request.

Additionally, HUD will continue its work to increase the supply of energy-efficient affordable housing units and promote green and sustainable housing practices.

In fiscal years 2012-2013, HUD exceeded its 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. (In fiscal year 2013 only, HUD completed cost-effective energy or healthy green retrofits on more than 77,000 units against its goal of 83,330 units. Approximately 37,000 of these were public housing units.) Not only do these energy retrofits strengthen the value of the project and help maintain its long-term viability, but introducing energy-efficient retrofits helps PIH to reduce operating costs over time. (Note that units reported for the Capital Fund use a unit-equivalent methodology as approved by OMB to count only the most cost effective energy retrofit measures reported by PHAs.)

Metrics used to measure the performance of Public Housing include the Enterprise Income Verification (EIV) System and the Public Housing Assessment System (PHAS), which collectively measure the level of improper payments, physical state of units, and the financial condition of the organizations. With the enactment of new statutory requirements for agencies to reduce improper payments, HUD continues to be a key leader in this initiative. From fiscal years 2000 through 2009, HUD reduced improper payments within its rental housing assistance programs (RHAP) from \$3.40 billion to \$925 million, which represents an improper payment rate of 3.1 percent of HUD’s RHAP outlays. HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments and ensure that the right benefits go to the right people. HUD has set a goal to reduce improper payments to 3.0 percent of the total dollar amount of program outlays for fiscal years 2010, 2011, and 2012.

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To ensure attainment of the aforementioned goals, HUD is focusing on the PHAs, owners, management agents, and contract administrators' compliance with the mandated EIV system use to further reduce income reporting errors.

### HUD Oversight, Monitoring, and Risk Assessment of PHAs

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. In support of this model, PIH is continuing to move forward with the Comprehensive National Risk Assessment and the Public Housing Agency Recovery and Sustainability initiative (PHARS), as well as proposing a number of improvement initiatives, including the Compliance Monitoring pilot and revisions to Section 6(j) in fiscal year 2015. Collectively, PIH believes these efforts will improve its ability to oversee and monitor the more than 4,000 PHAs that administer these programs.

HUD began the process of implementing a comprehensive national risk assessment tool and risk mitigation strategy in the Spring of 2013, with the goal of implementation during fiscal year 2014 and continuing into fiscal year 2015 and beyond. This strategy prioritizes PHAs nationally based on risk with an emphasis on more 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. 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.

The Public Housing program is covered extensively under this strategy and assessment tool. 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 operations like tenant account receivables and physical inspection scores.

The Department has made extensive efforts in ensuring that the data within the Public Housing program is accurate. The primary source of data for the Public Housing program is the PIH Information Center (PIC) system. The Department has been working towards clarifying definitional boundaries in the PIC system through the development of stricter protocols, particularly for analyzing vacancy data. Program monitoring directives such as this provide the greatest potential for success in optimizing Public Housing funds. In order to effectively use the PIC system, data entered into the system must be true and accurate. The Department will continue to work to validate data entered into the PIC system on a routine basis, to guarantee the quality and reliability of the data, which drives policy and program decisions at the national level.

HUD intends to identify other long-term strategies to ensure federal resources are being maximized to meet affordable housing in local communities while finding other ways to streamline programs and eliminate any redundancy in programs.

## **5. Legislative/Regulatory Proposals**

### Cross-Program Improvement Initiatives

The Department's fiscal year 2015 Budget request comes at a time of tightly constrained resources. In light of this funding environment, PHAs have requested that HUD provide relief from various requirements related to the operation of PIH programs as well as greater flexibility in the use of PIH resources. The Department has undertaken a comprehensive review and evaluation of these requests to identify items that merit implementation. Enactment and implementation of proposed measures will generate a cost savings to the Department; reduce the administrative burden on PHAs and provide them with flexibilities that will enhance their capacity to respond to local housing need; and/or promote program efficiencies at the PHA or HUD level. Several of the measures will also reward agencies that perform well.

### Proposals included in the 2015 Request

- Increase the threshold for deduction of medical and related care expenses. This provision would generate estimated savings of \$23 million in fiscal year 2015. The change would increase the threshold for the deduction of medical and related care expenses from 3 to 10 percent of family income. NOTE: This provision was included in the Department's fiscal years 2013 and 2014 budget requests.
- Improve the process for establishing Fair Market Rents (FMRs). FMRs, which are based on rent survey data, are currently used for rent-setting in both the voucher and project-based Section 8 programs. If the flat rent/ceiling rent provision described below is adopted, they will become a factor in rent-setting in the public housing program, as well. This provision strikes the statutory requirement that FMRs be published for comment in the *Federal Register*, making it possible for HUD instead to publish proposed FMRs to the Web along with any proposed material changes in methodology. A version of this language appeared in the Department's fiscal year 2014 budget request and in AHSSIA.
- Provide operating/capital fund flexibility. The 2015 Budget proposes to extend current statutory authority provided to agencies with fewer than 250 public housing units to all PHAs regardless of program size. Currently, only small agencies have the ability to use their public housing Operating and Capital funds interchangeably. 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 modernization 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 simply to access funds HUD has already awarded to it—a very

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inefficient use of federal resources. Property owners must prioritize their use of resources against needed capital investments, but only those operating public housing are limited in their ability to maximize resources to invest responsibly within their portfolio. With a \$26 billion backlog in capital needs, PHAs need greater flexibility to address as much need as possible with the limited resources available.

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<b>OPERATING FUND FORMULA ELIGIBILITY</b>				
<b>#</b>	<b>Description</b>	<b>Actual FY 2013</b>	<b>Estimate FY 2014</b>	<b>Estimate FY 2015</b>
1	Non-Utility Expense Level (PEL)	\$5,216,863,635	\$5,384,319,609	\$5,564,194,817
2	Utilities	1,649,993,242	1,666,766,651	1,702,370,471
3	Less: Tenant Income	<u>-2,938,125,455</u>	<u>-2,954,113,588</u>	-3,028,662,814
4	Public Housing Operating Fund Base (line 1-3)	3,928,731,422	4,096,972,672	4,237,902,474
5	MTW Alternative Formula Grant, PHAs not in Base	493,770,058	541,116,803	559,194,017
8	Public Housing Add-ons			
9	Elderly/Disabled Coordinators	16,516,327	17,052,643	17,669,949
10	Resident Participation	25,408,600	25,392,273	25,323,836
11	Energy-Add On for Loan Amortization	41,509,558	43,140,503	44,702,189
12	Payments in Lieu of Taxes	130,849,842	135,149,663	140,042,081
13	Cost of Independent Audit	24,792,894	25,486,344	26,408,950
14	Asset Management Fee	39,182,960	39,175,185	39,069,600
15	Information Technology Fee	26,133,434	26,115,601	26,045,214
16	Asset Repositioning Fee	42,919,259	46,559,299	48,244,746
17	Mutual Help and Turnkey Units	262,928	170,557	176,731
18	Estimated Appeals	10,000,000	10,000,000	10,000,000
19	Stop Loss	<u>136,555,092</u>	<u>141,344,246</u>	<u>140,963,295</u>
20	Subtotal Operating Fund Base (line 4-19)	4,916,632,374	5,147,675,789	5,315,743,082



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>2013 Budget Authority</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2013 Obligations</u>	<u>2014 Budget Authority/ Request</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2015 Request</u>
Operating Subsidy .....	\$4,054,181	...	\$4,054,181	\$4,054,181	\$4,398,668	...	\$4,398,668	\$4,495,729
PHA Financial Hardship Assistance .....	...	\$4,258	4,258	3,989	...	...	...	...
Rental Assistance Demonstration (transfer) .....	...	...	...	...	1,332	...	1,332	104,271
Transformation Initiative (transfer)	...	...	...	...	...	...	...	[10,070]
Total .....	4,054,181	4,258	4,058,439	4,058,170	4,400,000	...	4,400,000	4,600,000

NOTES:

The Rental Assistance Demonstration transfers reflected are the estimated amounts needed in FY 2014 and 2015 to support public housing properties converting to the Section 8 platform in either the Tenant-Based or Project-Based Rental Assistance accounts in the first full year following conversion. In the second full year following conversion, those properties' units will be picked up as part of the Tenant-Based or Project-Based renewal formulas.

Public Housing Operating Fund

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

The fiscal year 2015 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 [~~2014~~]2015 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)), [~~\$4,400,000,000~~] *\$4,600,000,000* [~~:Provided, That in determining public housing agencies', including Moving to Work agencies', calendar year 2014 funding allocations under this heading, the Secretary shall take into account the impact of changes to flat rents on public housing agencies' formula income levels~~]. (*Department of Housing and Urban Development Appropriations Act, 2014.*)