## HOUSING
### PROJECT-BASED RENTAL ASSISTANCE
#### 2014 Summary Statement and Initiatives
(Dollars in Thousands)

<table>
<thead>
<tr>
<th>PROJECT-BASED RENTAL ASSISTANCE</th>
<th>Enacted/Request</th>
<th>Carryover</th>
<th>Supplemental/Rescission</th>
<th>Total Resources</th>
<th>Obligations</th>
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<td>2012 Appropriation ................</td>
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<td>$9,311,175</td>
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a/ This amount includes $114.5 million in carryover and $38.3 million in recaptures realized in fiscal year 2012.
b/ This number includes an estimated Transformation Initiative (TI) transfer of up to 0.5 percent of Budget Authority, or $15 million, whichever is less.
c/ Resources include $31 million in carryover, $105 million from offsetting collections, $21 million transferred from Public Housing Operating Fund and Capital Fund for the Rental Assistance Demonstration program (RAD), net of a $15 million transfer to the TI account.

### 1. What is this request?

The Department is requesting a total of $10.272 billion to meet Project-Based Rental Assistance (PBRA) program needs. This includes $9.872 billion for fiscal year 2014 and a $400 million advance appropriation for fiscal year 2015 (in addition to the $400 million advance appropriated in 2013 and available in 2014). Under the request, the total funding level for fiscal year 2014 is a $932 million increase over the fiscal year 2012 appropriation of $9.340 billion.

The PBRA program provides low-income families with decent, safe and affordable housing. These households are primarily elderly (47 percent), families with children (29 percent) and persons with disabilities (17 percent).

The funding requested allows for the renewal or amendment of several types of rental assistance contracts, including: Housing (Project-Based Section 8 contracts), Public and Indian Housing (Moderate Rehabilitation contracts), and Community Planning and Development (Single Room Occupancy contracts).

The need for Section 8 Amendment funds results from insufficient funds provided for long-term project-based contracts funded primarily in the 1970’s and 1980’s. During those years, the Department provided contracts for terms of up to 40 years. Estimating funding needs over such a long period of time proved to be problematic, and as a result, many of these Section 8 contracts were inadequately funded. Older long-term contracts that have not reached their termination dates and have not entered the 1-year renewal cycle must be provided amendment funds for the projects to remain financially and physically viable. The Department...
estimates that total Section 8 Amendment needs in fiscal year 2014 will be approximately $612 million. Funding requested for contract renewals is sufficient to provide 12 months of funding for all renewing contracts.

The following table shows the change in the number of units under contract, average monthly subsidy payment per unit and the average utilization rate by fiscal year.

<table>
<thead>
<tr>
<th></th>
<th>Contract Units</th>
<th>Average Monthly Subsidy per Unit</th>
<th>Average Utilization¹</th>
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<tbody>
<tr>
<td>FY 2008</td>
<td>1,260,865</td>
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<td>FY 2011</td>
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<td>FY 2012</td>
<td>1,243,562</td>
<td>$680</td>
<td>95.1%</td>
</tr>
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The Department is proposing up to $265 million for Performance-Based Contract Administrators (PBCAs) in fiscal year 2014. These administrators, which are typically Public Housing Authorities or state housing finance agencies, are responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; reviewing, processing, and paying monthly vouchers submitted by owners. PBCAs are integral to the Department’s efforts to be more effective and efficient in the oversight and monitoring of this program. The PBCA funding level for fiscal year 2014 is lower than the fiscal year 2012 set-aside by $24 million.

- The funding request for fiscal year 2014 assumes several cost saving measures will be implemented in fiscal years 2013 and 2014. If these changes are not implemented or are delayed, the fiscal year 2014 appropriations requirement may increase.
- Apply residual receipts accounts to offset assistance payments for new and old regulation contracts. As in the fiscal year 2013 request, this request proposes the authority to collect these reserves in the PBRA account and use them to cover a portion of the payments.
- For certain owner-commissioned rent comparability studies the appraiser will have to provide additional support to justify the conclusions of the study.
- For contracts renewed under Option 4, limit exception rent levels to Operating Cost Adjustment Factor (OCAF) increases if project budgets result in rent levels exceeding market.
- Reduce the time period over which an owner may claim vacancy payments from 60 days to 30.

¹ The average number of contract units occupied or being utilized by families assisted with the program.
Project-Based Rental Assistance

The request includes several other reforms and initiatives, some of which are specific to PBRA, and some of which are included in comprehensive legislation that will be introduced in the spring. For example, the Department proposes to increase the amount of income that must be spent on medical expenses from 3 percent of income to 10 percent before medical expenses can be deducted. This cross-cutting proposal, that was also included in the Department’s fiscal year 2013 budget request, is discussed in the Housing Choice Voucher request. The other initiatives are discussed at the end of this document.

Rental Assistance Demonstration

In 2014, the Department will continue implementation of the Rental Assistance Demonstration (RAD). Under RAD, Public Housing Authorities and owners of rental properties assisted under the Public Housing and Section 8 Moderate Rehabilitation (MR) programs have the option to convert the assistance of their properties to long-term PBRA or Project-Based Voucher (PBV, funded in the Tenant-Based Rental Assistance account) contracts. At this point, the number of Public Housing units that will have completed the conversion process in 2013 or the number that will require renewal funding under the PBRA account is still an estimate. Therefore, the Department 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 2014 Public Housing Operating Fund and Capital Fund appropriation to the PBRA account to fund the 2014 renewal costs for conversions that were actually completed in 2013. The Department currently estimates that $43.2 million will need to be transferred from the Operating and Capital Funds to the PBRA and/or TBRA accounts in 2014 for this purpose, though the precise amount will be determined based on the number and characteristics of units that actually complete conversion in 2013. Continuing renewal funding would become a part of the base funding level for PBRA in fiscal year 2015.

HUD also requests to increase the cap on the number of units that will be eligible to convert to Section 8 project-based rental assistance from 60,000 units to 150,000 units, and to exclude MR properties from this cap. Together, these proposals will allow for a greater portion of both the Public Housing and MR stock to convert at no cost to the Federal government. See the Rental Assistance Demonstration request for more information.

2. What is this program?

The Project-Based Rental Assistance program provides rental assistance on behalf of eligible tenants residing in specific multifamily rental developments. Project-based rental assistance is provided through contracts between the Department and owners of multifamily rental housing. If a tenant moves, the assistance stays with the housing development (which is a major difference between this program and the Tenant-Based Rental Assistance program in which the subsidy moves with the tenant). The amount of rental assistance paid to the owner is the difference between what a household can afford (based on paying 30 percent of household income for rent) and the approved contract rent for the unit. This program serves approximately 1.2 million low-income and very low-income households that are primarily seniors, families with children, and persons with disabilities. Section 8 tenant
Project-Based Rental Assistance


Eligible owners include for-profit or non-profit organizations, cooperatives, Limited Liability Corporations, Limited Partnerships or other types of joint ownership structures organized to develop and operate affordable rental housing. These properties are financed in a similar manner to market rate rental developments, using private financing, FHA financing, private equity, or equity raised from the sale of Low-Income Housing Tax Credits. Currently, the portfolio is leveraging over $13 billion in FHA insurance and $17 billion in private financing and equity. The owner must provide affordable decent, safe and sanitary housing units to continue to receive project-based rental assistance.

The program’s portfolio of 17,500 contracts generally receives high standardized physical inspection scores. Many PBRA properties are located in strong rental markets that have been preserved through the Department’s successful Mark-Up-to-Market program and other preservation programs. The Mark-Up-to-Market Program adjusts rents to prevailing market conditions while maintaining affordability for low-income households. Such properties frequently provide the only affordable housing opportunities within these communities. Other PBRA properties are located in less strong markets and provide an important stabilizing influence to their communities, often acting as important footholds for additional housing and other commercial neighborhood investment.

The program set-aside of $265 million for PBCAs is an important tool to administer the program in a cost effective manner. PBCAs provide direct oversight and monitoring of the program that carry out critical functions, including: (1) reducing payment errors; (2) ensuring that the physical condition of units is maintained; and (3) ensuring timely payment of rents to property owners.

Salaries and Expenses (S&E) and Full-time Equivalents (FTE) Request

The primary workload for the Section 8 Program in the PBRA account is managed by HUD’s Office of Housing, mainly the Office of Multifamily Housing. Critical functions are also supported by Office of Housing’s financial, procurement, IT, and other administrative organizations. A total of 397.9 FTE are requested for Project-Based Rental Assistance, which is a decrease of 3.1 from the fiscal year 2012 actual number. Total S&E funding is $50.65 million or an increase of $1.42 million from the 2012 actual amount. Personnel services increase by $1.27 million or 2.6 percent reflecting the increased cost of salary and benefits. Non-personnel services are increased by $145 thousand due to an increase in training.

Workload by Function

The overall S&E requests reflect the following workload by functions for the Project-Based Rental Assistance Program:

- Multifamily Subsidy Administration has 167.7 FTE (42.2 percent) overseeing HUD’s rental assistance programs to ensure that compliance levels are maintained and verify the proper distribution of funding. The staff develops policy on occupancy requirements, writes guidebooks and notices, responds to inquiries regarding occupancy issues, administers and oversees
Project-Based Rental Assistance

training, and works with HUD offices around the country to provide guidance on the administration of rental assistance programs.

- Multifamily Grant Administration Staff has 39.9 FTE (10.0 percent) engaged in all activities associated with development and dissemination of policy and guidance for Project-Based Contract Administrators, field staff, and project owners.
- Multifamily Asset Management and Recapitalization has 176.3 FTE (44.3 percent) to provide oversight and monitoring of field staff implementation of policy and procedures related to sponsor and owner obligations and responsibilities; and oversight and monitoring of the Use Agreement and other contracts.
- Multifamily Policy Development staff has 14.0 FTE (3.5 percent) that administer the multifamily rental assistance programs; develops policy on the renewal of Section 8 contracts and the provision of rent adjustments; writes guidebooks and notices; responds to inquiries regarding contract provisions and provides oversight and monitoring of field staff implementation of policy and procedures related to implementing Section 8 contract renewal, rent increase and occupancy requirements.

Sustaining our Investments

During fiscal year 2013, the Office of Multifamily Housing is undertaking a business re-engineering initiative called Sustaining Our Investments. This initiative will improve performance efficiencies in our oversight and monitoring of projects assisted by Section 8 Project-Based Rental Assistance. Sustaining Our Investments will refocus monitoring of the assisted portfolio to ensure the performance of critical functions essential to the effective management of the portfolio. The initiative will introduce streamlined oversight tasks for projects that are identified as low risk, high performers and will identify opportunities for elimination of tasks that are redundant, unnecessary or do not contribute to ensuring quality performance of the Section 8 Project-Based portfolio. We expect that the process improvements introduced and institutionalized as part of Sustaining Our Investments will position the Office of Multifamily Housing to effectively administer the Section 8 program at current staffing levels, and that the enhancements to business processes introduced by the initiative would allow for continued effective program administration at FTE levels below our current allocation.

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

Addresses the Need for Quality Affordable Rental Homes

The PBRA program is one of three major federal rental assistance programs for providing low-income families with decent, safe and affordable housing. The program currently provides affordable housing for over 1.2 million families. These households are primarily elderly (47 percent), families with children 29 percent) and persons with disabilities (17 percent).

The program supports a stock of long-term affordable housing and helps protect the federal investment, which would be costly to recreate.
Project-Based Rental Assistance

Reduces the number of families with severe housing needs and reduces or prevents homelessness

In February 2013, HUD released a summary of 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 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.

The rise in hardships among renters is due to substantial increases in rental housing demand and weakening incomes that increased competition for already-scarce affordable units. As a result, the gap between the number of affordable units that were available for very low-income renters and the number of renters who need these units not only failed to improve in percentage terms, but worsened in absolute terms.²

PBRA funding directly reduces worst case housing needs. Increased housing costs in turn would effectively diminish the already limited incomes of these families, even for necessities such as food, health care, child care, education and transportation costs. Some would likely face the real prospect of actual homelessness.

Preserves the affordability and condition of privately owned rental housing

PBRA supports a stock of long-term affordable rental housing for the lowest-income American families. This is increasingly important, as the private stock of rental housing that is affordable to the lowest income families has actually been shrinking. While there was an overall net increase of 694,000 rental units in the housing market between 2007 and 2009, there was a decrease of 570,000 units that were affordable to families with extremely low incomes in the same period.³

Without this assistance, many projects would either convert to market with potentially large rent increases that the current families would not be able to afford, or alternatively would not be able to generate sufficient rental income to continue to be maintained in good condition. In addition, without ongoing rental income, some projects would be unable to continue payments on existing debt, including mortgages insured by FHA, or mortgages backed by bonds issued by state housing finance agencies.

Expand choices of affordable rental homes located in a broad range of communities

Project-Based Rental Assistance

The preservation of affordable units assures that units will continue to become available in a wide range of housing markets throughout the nation as vacancies occur. Many projects are located in good neighborhoods, where low-income families would otherwise be unable to find affordable housing, while other projects serve as anchors providing well-maintained properties in areas that might experience downward investment. Many projects also provide badly needed affordable housing in rural areas, as many projects were developed with financing through the USDA Rural Housing Service’s Section 515 Multifamily program.

PBRA’s Spillover Benefits to Local Communities and Economies

Multifamily housing assisted by PBRA stabilizes neighborhoods and contributes to local economic bases. PBRA housing draws workers, service providers, and retailers and returns to host communities’ significant and much relied-upon property tax revenue. Data from fiscal years 2009 and 2010 confirms that $460 million was paid in property taxes from PBRA owners to municipalities. The PBRA program, through its 17,500 contracts with owner landlords, directly contributes to job creation and retention in the fields of property management, maintenance, administration, general construction, contract vendors such as landscapers, exterminators, security guards, snow removers, equipment servicers, legal representation and property insurance providers. It is estimated that the program directly supports approximately 55,000 jobs annually at projects throughout the country. In addition, owners of PBRA housing contract for services with local businesses and service providers that are estimated to produce another 45,000 indirect or induced jobs, totaling employment generation of 100,000 jobs annually.

In addition to local revenue generation and job retention associated with ongoing project operation, the PBRA program is also a redevelopment and preservation tool for private multifamily rental housing owners. PBRA contracts act as a critical credit enhancement for project financing, allowing owners to leverage private debt and equity to permit project refinancing and recapitalization. Such transactions require owners to hire architects, surveyors, construction contractors as well the professional services of consultants and attorneys to complete the work. The periodic refinancing of the debt underlying projects assisted by PBRA generates significant capital available for investment in construction repairs and improvements. If funding for the PBRA program is not provided, the value of this underlying debt to both FHA and private lenders as well as existing equity in the physical structures would be severely eroded, contributing to significant loss of privately held wealth and community investment.

Transformation Initiative

In fiscal year 2014, the Department renews its request for the Transformation Initiative Fund, which provides the Secretary the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. This program may transfer up to 0.5 percent or $15 million, whichever is less, to the Transformation Initiative Fund for the operation of a second-generation Transformation Initiative (TI2). More details on TI2 and its projects are provided in the justification for the Transformation Initiative Fund account.
4. **How do we know this program works?**

PBRA supports a stock of long-term affordable rental housing for the lowest-income American families. This is increasingly important, as the private stock of rental housing that is affordable to the lowest income families has actually been shrinking. While there was an overall net increase of 694,000 rental units in the housing market between 2007 and 2009, there was a decrease of 570,000 units that were affordable to families with extremely low-incomes in the same period.⁴

In addition to the data on affordability and the tenants served, there have been several important studies and evaluations of different aspects of the program. A PD&R study estimated that the Mark-to-Market program, enacted in 1997 to restructure the project-based portfolio, resulted in cost savings from reduced federal subsidies of over $830 million (and possibly over $880 million) over 20 years.⁵

Multifamily Housing is a major client of the Departmental Enforcement Center (DEC). Since its inception in 1998, the DEC has addressed possible non-compliance issues in over 75,000 referrals from Multifamily Housing. The DEC’s work resulted in recoveries to the insured/assisted multifamily housing property project accounts of over $280 million. In addition, the Department has entered into over 1,500 settlement agreements with multifamily owners, totaling more than $11 million in civil money penalties. To date, the DEC has issued more than 4,300 notices to owners of multifamily housing of violations of regulatory agreements or defaults of the housing assistance payments contracts.

The Department has mandated the use of the Enterprise Income Verification (EIV) system by all PHAs or PBCAs that administer the program. The EIV system increases the efficiency and accuracy of income and rent determinations, reduces incidents of underreported and unreported household income, removes the barriers to verifying tenant-reported income, and addresses material weaknesses in an owners’ reexamination process and program operations. The EIV system also assures that more eligible families are able to participate in the program, reduces improper payments, and ensures that the right people receive the right amount of assistance at the right time. EIV is one strategy of a larger, HUDwide effort to reduce income and rent errors and improper payments in the administration of voucher, and other HUD programs. For example, HUD conducts a limited number of on-site reviews at PHAs to determine the accuracy of the PHA’s rent and income calculations.

**Integrated Budget Forecasting Model (iBFM)**

As a major step toward improving budgeting, funds management, and payment processing oversight in the Section 8 program, the Office of Multifamily Housing successfully implemented the new Integrated Budget Forecasting Model (iBFM) in the Spring of 2012.

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Project-Based Rental Assistance

The model provides forecasting and funds management functionality to HUD, as well as built-in funds management capabilities, now in use by MFH operations staff.

iBFM continually monitors short-term funding needs on every contract, greatly reducing payment delays or disruption due to inaccurate funding need projections. To date in fiscal years 2012 and 2013, HUD staff have used the new model to generate precise contract funding records totaling over $8 billion. The model automatically detects any “over funding,” or excess funds, on all contracts in the project based portfolio, enabling multifamily staff to perform timely recaptures or cancellation of excess account balances.

This new functionality is now allowing HUD staff to monitor and act on contract balances more effectively than at any time in the history of the program. The Integrated Budget Forecasting Model will require funding from HUD’s IT Portfolio in fiscal year 2014 in order to:

- Improve forecasting accuracy through expanded predictive analytics, integrating tenant income, gross rent, and OCAF predictive models into the iBFM algorithms,
- Better integrate iBFM and the HUD Core Financial System,
- Address Enterprise Architecture requirement to reduce/eliminate duplication of data,
- Provide dashboards for HUD Managers and Senior staff, and
- Provide continued operations and maintenance support.

Proposals in the 2014 Request

- **Flexible Portfolio Demonstration.** HUD will implement a Flexible Portfolio Demonstration that would offer regulatory and administrative flexibilities to high-performing multifamily owners in exchange for commitments provide costs savings and to preserve property affordability.

- **Pay for Success.** The Department will introduce legislation to establish a Pay for Success demonstration that allows the Department to enter multi-year agreements to repay private investors who provide upfront funding for energy efficiency retrofits of HUD-assisted housing.

- **Other Preservation Strategies.** The Department will introduce legislation to facilitate the refinance and recapitalization of projects that have Use Agreements imposed by the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA). This proposal will align owner distribution policies in LIHPRHA-governed properties with other PBRA-assisted properties in order to facilitate preservation transactions.
## Project-Based Rental Assistance

### HOUSING
PROJECT-BASED RENTAL ASSISTANCE

Summary of Resources by Program
(Dollars in Thousands)

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<tr>
<th></th>
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<td>Contract Renewals and Amendments</td>
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<td>Total</td>
<td>9,339,672</td>
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<td>9,311,175</td>
<td>9,394,382</td>
<td>181,292</td>
<td>9,575,674</td>
<td>10,272,000</td>
</tr>
</tbody>
</table>
Below is the italicized appropriations language for the Project-Based Rental Assistance program.

For activities and assistance for the provision of project-based subsidy contracts under the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) (``the Act''), not otherwise provided for, 9,872,000,000, to remain available until expended, shall be available on October 1, 2013 (in addition to the $400,000,000 previously appropriated under this heading that became available October 1, 2013), and $400,000,000, to remain available until expended, shall be available on October 1, 2014: Provided, That the amounts made available under this heading shall be available for expiring or terminating section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for amendments to section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for contracts entered into pursuant to section 441 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11401), for renewal of section 8 contracts for units in projects that are subject to approved plans of action under the Emergency Low Income Housing Preservation Act of 1987 or the Low-Income Housing Preservation and Resident Homeownership Act of 1990, and for administrative and other expenses associated with project-based activities and assistance funded under this paragraph: Provided further, That of the total amounts provided under this heading, not to exceed $265,000,000 shall be available for performance-based contract administrators for section 8 project-based assistance: Provided further, That the Secretary of Housing and Urban Development may also use such amounts in the previous proviso for performance-based contract administrators for the administration of: interest reduction payments pursuant to section 236(a) of the National Housing Act (12 U.S.C. 1715z-1(a)); rent supplement payments pursuant to section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s); section 236(f)(2) rental assistance payments (12 U.S.C. 1715z-1(f)(2)); project rental assistance contracts for the elderly under section 202(c)(2) of the Housing Act of 1959 (12 U.S.C. 1701q); project rental assistance contracts for supportive housing for persons with disabilities under section 811(d)(2) of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 8013(d)(2)); project assistance contracts pursuant to section 202(h) of the Housing Act of 1959 (Public Law 86-372; 73 Stat. 667); and loans under section 202 of the Housing Act of 1959 (Public Law 86-372; 73 Stat. 667): Provided further, That amounts recaptured under this heading, the heading "Annual Contributions for Assisted Housing", or the heading "Housing Certificate Fund" may be used for renewals of or amendments to section 8 project-based contracts or for performance-based contract administrators, notwithstanding the purposes for which such amounts were appropriated: Provided further, That, notwithstanding any other provision of law, upon the request of the Secretary of Housing and Urban Development, project funds that are held in residual receipts accounts for any project subject to a section 8 project-based Housing Assistance Payments contract that authorizes HUD to require that surplus project funds be deposited in an interest-bearing residual receipts account and that are in excess of any amount to be determined by
Project-Based Rental Assistance

the Secretary, shall be remitted to the Department and deposited in this account, to be available until expended: Provided further, That amounts deposited pursuant to the previous proviso shall be available in addition to the amount otherwise provided by this heading for uses authorized under this heading.

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.