

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PUBLIC AND INDIAN HOUSING

PUBLIC HOUSING OPERATING FUND

PROGRAM HIGHLIGHTS

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002	INCREASE + DECREASE - 2002 vs 2001
(Dollars in Thousands)				
HA-owned unit under management, end-of-year	1,266,980	1,253,558	1,249,331	-4,227
<u>Budget Authority</u>				
<u>(Appropriations):</u>				
Enacted or Proposed	\$3,138,000	\$3,242,000	\$3,384,868	+\$142,868
Rescission	-\$7,132	...	+\$7,132
Unobligated balance from prior year	\$11,675	\$55,318	...	-\$55,318
Recaptures	<u>\$8,523</u>	<u>...</u>	<u>...</u>	<u>...</u>
Subtotal	\$3,158,198	\$3,290,186	\$3,384,868	+\$94,682
Obligations	\$3,102,880	\$3,290,186	\$3,384,868	+\$94,682
Budget Outlays	\$2,835,881	\$3,216,708	\$3,336,148	+\$119,440

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2002 Budget proposes an appropriation of \$3.385 billion for the Public Housing Operating Fund, an increase of \$150 million over the fiscal year 2001 enacted appropriation of \$3.235 billion, which is net of a .22 percent rescission. The request estimates full funding for Public Housing Agencies (PHAs) of their subsidy eligibility which nationally represents approximately 53 percent of total operating revenues received by Public Housing Agencies (PHAs). The requested funding is expected to allow PHAs to provide a reasonable level of maintenance, utilities, protective and other services to residents in fulfillment of their goal to provide decent, safe, and sanitary housing for lower-income families as required by the United States Housing Act of 1937.

The annual subsidy requirements were developed using a formula-based approach that takes into consideration size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. An interim formula was implemented in 2001 following negotiated rule-making required by the Public Housing Reform Act of 1998.

The Budget request also includes \$10 million for Operation Safe Home which will be administered by the Department's Office of Inspector General.

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2002 Budget request of \$3.385 billion represents an increase of \$150 million more than the \$3.235 billion enacted for fiscal year 2001. Fiscal year 2002 estimated outlays of \$3.336 billion are \$119 million higher than the fiscal year 2001 current estimate, reflecting in part, the second year spend-out of obligations from fiscal year 2001, as well as the disbursement of obligations from the higher level of 2002 funding.

Public Housing Operating Fund

The table below reflects the funding for the primary elements comprising the proposed fiscal year 2002 Budget request.

	ESTIMATE 2002 (Dollars in Thousands)	
Public Housing Operating Fund Base....	\$3,034,069	
Alternative Subsidy Projects.....	138,360	
Non-dwelling Units.....	12,140	
Family Self-Sufficiency.....	17,845	
Unit Reconfigurations.....	\$15,307	
Transition funding for demolitions....	22,510	
Disregard of Earned Income for Certain Unemployed.....	-12,000	
Moving to Work Demonstration Agencies.	230,137	
Funding for Resident Participation....	31,000	
Less estimated savings from:		
Changes in Rental Income/Income Targeting		- <u>114,500</u>
Total Current Year Requirements.....	\$3,374,868	
Enacted or Proposed.....	\$3,384,868	

Specific factors affecting the fiscal year 2002 operating subsidy estimates are:

1. Economic Assumptions. The fiscal year 2002 estimates incorporate the most recent economic assumptions about inflation, and presume a 2 percent increase in non-utility costs, and a 3 percent decrease in utility rates. The latter compares to a 13.2 percent increase in 2001. Increases in tenant income are reflected separately under "Change in Rental Income/Income Targeting." The calculation of individual PHA subsidy requirements includes the use of an inflation factor which is a weighted average percentage increase in local government wages and salaries for the area in which the PHA is located and non-wage expenses.

2. Adjustments to Operating Subsidy Requirements. The fiscal year 2002 estimate reflects adjustments in operating subsidy requirements for various PHA income and expense factors based on existing procedures and regulations affecting tenant rent payments and PHA operating costs. These adjustments reflect the following factors:

a. Alternative Subsidy Projects. Pursuant to the new Operating Fund rule, the interim formula has special provisions relating to housing owned by public housing agencies (PHAs) in the Virgin Islands, Puerto Rico, Guam, and Alaska.

b. Non-Dwelling Units. The estimate reflects additional operating subsidies for the cost of funding units removed from the dwelling rental inventory for non-dwelling use to support resident economic self-sufficiency.

c. Family Self-Sufficiency (FSS). The estimate for Family Self-Sufficiency includes the salary/benefit cost associated with the public housing share of a full-time FSS coordinator for each PHA with a HUD-approved FSS Action Plan. The estimated cost also includes the subsidy of one non-dwelling unit in each FSS PHA for the provision of supportive services.

d. Unit Reconfigurations. The estimate for unit reconfigurations includes the costs resulting from Section 118 of the 1987 HCD Act requirement which eliminates subsidy reductions due to unit reconfigurations (breakthroughs) where the same number of people can reside in the new larger unit formed by combining two or more smaller units.

Public Housing Operating Fund

e. Transition Funding for Demolitions. A provision of the Operating Fund provides a short transition period of funding for PHAs that have received approval to demolish units, and have not received replacement Section 8 certificates or vouchers. The purpose of the provision is to encourage and support efforts by PHAs to reduce overhead costs in a planned and orderly manner when the inventory of units is reduced by demolition.

f. Earned-Income Disregard. The Public Housing Reform Act of 1998 assists families in public housing to transition from welfare to work by prohibiting rent increases which arise from employment during the 12-month period beginning on the date the employment began if the earned income increase stems from a family member who: (1) was unemployed for at least 12 months, (2) is participating in a self-sufficiency program or job training program, or (3) received welfare payments in the past 6 months.

g. Changes in Rental Income/Income Targeting. The Public Housing Reform Act of 1998 provides: (1) public housing deconcentration requirements, (2) annual requirements for serving families with incomes below 30 percent of area median income, and (3) permanent repeal of Federal preferences and authorization for local preferences in public housing. Through these and other mechanisms, PHAs may increase income diversity in public housing. This estimate also reflects the treatment of income expressed in the new formula in which that is successful in increasing its current dwelling rental income when compared to its 3-year average will only recognize 50 percent of that increase for subsidy purposes.

h. Funding for Resident Participation. These funds will be used to support existing as well as new initiatives associated with resident participation activities. PHAs will be eligible to receive \$25 per occupied unit on an annual basis for this function.

i. Treatment of Non-rental Income. The Public Housing Reform Act of 1998 authorizes PHAs to retain non-rental income without any reduction in their operating subsidies. This provision was made effective in fiscal year 2000. The retained income is to be used for low-income housing or to benefit the residents of the PHA. Based on HUD's accounting classification system, non-rental income is defined as interest earned on general fund investments and other income, including income from leasing of non-dwelling facilities, i.e., commercial space. Income from the rental of dwelling units used for non-dwelling purposes, e.g., a dwelling unit to a social service agency to provide program services, however, is treated as rental income.

PHA EXPENDITURE PATTERNS

Based on historical data, the table below represents an estimated pattern of PHAs operating expenditures for fiscal year 2002. Such expenditures may vary substantially for individual authorities.

Public Housing Authorities' Operating Expenditures
(In Millions of Dollars)

<u>Category</u>	<u>Annual Expenditures</u>	<u>Percent of</u> <u>Total</u>
Utilities	\$1,344	21%
Administration	1,280	20%
General Operating Expenses	1,088	17%
Maintenance	1,984	31%
Tenant Services	\$64	1%
Protective Services	192	3%
Capital Expenditures	128	2%
Operating Reserves	<u>320</u>	5%
Total, Operating Expenses	\$6,400	

Public Housing Operating Fund

Utilities. Includes water, electricity, gas, fuel, and related labor expenses.

Administration. Includes administrative salaries, legal, expenses, staff training, travel, accounting fees, auditing fees, sundry, and outside management costs.

General Operating Expenses. Includes insurance, payments made to local governments in lieu of taxes, terminal leave payments, employees benefit contributions, collection losses, interest on administrative and sundry notes, and other general expenses.

Ordinary Maintenance and Operations. Consists of expenses for labor, materials, contracts and garbage fees associated with the day-to-day operation of the public housing authority.

Tenant Services/Resident Participation Activities. Covers salaries, recreation, publication, contract costs, training, and other expenses.

Protective Services. Includes expenses for labor, materials, and contract costs.

Capital Expenditures. Includes extraordinary maintenance, casualty losses and property betterments (e.g. roofs and furnaces).

Operating Reserves. Provides working capital funds, and is a cushion for emergencies.

PROGRAM DESCRIPTION AND ACTIVITY

The Public Housing Operating Fund provides operating subsidy payments to approximately 3,050 PHAs with a total of over 1.2 million units under management. Operating subsidies are provided to PHAs to assist in funding the operating and maintenance expenses of their owned dwellings in accordance with Section 9 of the United States Housing Act of 1937, as amended.

STRATEGIC GOALS AND OBJECTIVES: RESOURCES REQUESTED (\$ AND FTE) AND RESULTS

- The Public Housing Operating Fund is essential for achieving HUD Strategic Objectives as follows:
- Objective 1.2: making affordable rental housing available to low-income households;
- Objective 1.3: ensuring that America's housing is safe and disaster-resistant;
- Objective 3.2: enabling poor and disadvantaged families and individuals to become self-sufficient and to develop assets;
- Objective 4.2: reducing disparities in well-being among neighborhoods and within metropolitan areas; and
- Objective 4.3: keeping communities and neighborhoods safe.

SELECTED PERFORMANCE MEASURES

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Goal 1: Increase the availability of decent, safe and affordable housing in American communities.			
Discretionary BA (Dollars in Thousands)	1,484,274	1,530,092	1,601,043
FTE	149	148	148
Strategic Objective 1.2: Affordable rental housing is available for low-income households.			
Outcome Indicator 1.2.1: The number of households with worst case housing needs decreases 3 percent between 2001 and 2003 among families with children, the elderly and persons with disabilities. ^{a/}	Not Applicable	1.7 mil. families w/children & 997,000 elderly	Not Applicable
Output Indicator 1.2.a: Among extremely-low-income renters, the ratio of assisted households to households with worst case needs or already assisted increases to 46.7 percent by 2003. ^{b/}	Not Available	45.2%	Not Available
Strategic Objective 1.3: America's housing is safer, of higher quality, and disaster resistant.			
Outcome Indicator 1.3.3: The share of units that meet HUD-established physical standards increases by 3 percentage points to 73.9 percent of public housing units and 89.5 percent of assisted multifamily units (also appears as 5.1.7).	69.9 percent	70.9 percent	73.9 percent
Strategic Goal 3: Promote housing stability, self-sufficiency and asset development of families and individuals.			
Discretionary BA (Dollars in Thousands)	1,104,576	1,138,673	1,191,474
FTE	109	109	109
Strategic Objective 3.2: Poor and disadvantaged families and individuals become self-sufficient and develop assets.			
Outcome Indicator 3.2.3: Among non-elderly, non-disabled public housing households with dependents, the share that derive more than 50 percent of their income from work increases by 1 percentage point .	52.7 percent	53.7 percent	54.7 percent
Outcome Indicator 3.2.4: The share of welfare families that move from welfare to work each year while residing in public housing increases by 1 percentage point.	29 percent (estimate)	30 percent	31 percent

Public Housing Operating Fund

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Goal 4: Improve community quality of life and economic vitality.			
Discretionary BA (Dollars in Thousands)	549,150	566,102	592,352
FTE	54	54	54
Strategic Objective 4.2: Economic conditions in distressed communities improve.			
Strategic Objective 4.3: Communities become more livable.			
Outcome Indicator 4.3.6: The share of public housing residents who feel safe or very safe increases by 1 percentage point.	Baseline To Be Determined	To Be Determined	To Be Determined

- a/ The fiscal year 2001 goals are based on actual 1999 performance of 1.79 million families with children and 1.03 million elderly. Data are provided in the odd years by the American Housing Survey.
- b/ The fiscal year 2001 goal is based on actual 1999 performance of 44.7 percent. Data are provided in odd years by the American Housing Survey.