

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PUBLIC AND INDIAN HOUSING

PUBLIC HOUSING CAPITAL FUND

PROGRAM HIGHLIGHTS

	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003	INCREASE + DECREASE - 2003 vs 2002
(Dollars in Thousands)				
<u>Budget Authority</u>				
Enacted or Proposed	\$3,000,000	\$2,843,400	\$2,425,900	-\$417,500
Leverage Funding Financing				
Initiative	[...]	[...]	[\$417,500]	[+\$417,500]
Total, Resources	[\$3,000,000]	[\$2,843,400]	[\$2,843,400]	[...]
ROSS	[...]	[...]	[\$55,000] a/	[+\$55,000]
Rescission	-\$6,600
Budget Authority Net	\$2,993,400	\$2,843,400	[\$2,843,400]	[...]
<u>Carryover</u>				
Carryover/Recaptures	\$1,535,563 b/	\$696,190	...	-\$696,190
Total	\$4,528,963	\$3,539,590	[\$2,843,400]	-\$696,190
<u>Obligations</u>				
Obligations	\$3,759,493	\$3,539,590	\$2,425,900	-\$1,113,690
<u>Outlays</u>				
Outlays (net)	\$3,550,475	\$3,655,921	\$3,552,779	-\$103,142

a/ Previously funded in Community Development Fund.

b/ An accounting adjustment of \$53,664 was made in the unobligated balance for fiscal year 2001.

SUMMARY OF BUDGET ESTIMATES

The Budget proposes an appropriation of \$2.426 billion for the Public Housing Capital Fund in fiscal year 2003. This amount reflects the PHA's ability to use billions of dollars already appropriated as well as a new initiative, Public Housing Reinvestment and Financial Reform, which will rely on private financing to address the capital improvements backlog. This initiative is explained more fully under the Program Description and Activity section of this justification. The potential leveraging will allow capital improvements to be done at a level that is considerably greater than the level funded in fiscal year 2002. To the extent that the pilot initiative does not generate at least \$400 million in capital improvements, HUD will seek to restore the reduction of funds to the previous year's level in fiscal year 2004.

Of the total amount requested, \$2.208 billion will assist housing authorities in carrying out capital and management activities and is sufficient to cover the accrual of additional capital needs which is estimated at \$2.2 billion annually. Of the requested amount, up to \$55 million is for Resident Opportunities and Self-Sufficiency (ROSS). ROSS was previously funded in Community Development Fund program. Of the requested amount, up to \$54 million is designated for technical assistance. In addition, up to \$19 million will be used for the development and maintenance of information technology systems related to public housing. Of the total amount, up to \$75 million shall be available to make grants to Public Housing Agencies for capital needs resulting from

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emergencies and natural disasters in fiscal year 2003. Also, of the amount provided \$15 million shall be for the Neighborhood Networks initiative.

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2003 budget authority reflects a decrease of \$418 million in appropriations but funds secured through private financing will far exceed this cut. In addition, this request represents a change in the way the Department funds the Working Capital Fund (WCF). In fiscal year 2002, the Public Housing Capital Fund's contribution to the WCF was appropriated in the account and subsequently transferred to the WCF. Beginning in fiscal year 2003, the appropriation request for this program will be reduced by the amount of the contribution and that amount will be included in a direct appropriation to the WCF. Estimated obligations reflect a decrease of \$1.114 billion in fiscal year 2003 resulting from a lower request and the assumption that there will be no carryover from fiscal year 2002 into fiscal year 2003. Outlays are expected to decrease by \$103 million since the backlog of pipeline projects was reduced in fiscal years 2000 and 2001.

PROGRAM DESCRIPTION AND ACTIVITY

Effective in fiscal year 2000, the Quality Housing and Work Responsibility Act of 1998 authorized the Capital Fund, which expands the scope of the predecessor to the Capital Fund by consolidating all public housing capital programs (except HOPE VI), and allowing greater local flexibility in decisions on major capital initiatives and management improvements undertaken by Public Housing Agencies (PHAs).

Designed to respond to the public housing capital and management improvement requirements, the Capital Fund is a comprehensive, formula-driven program. In conjunction with local officials and HA residents, the Capital Fund provides PHAs with optimum latitude in determining the most appropriate approaches to respond to local low-income housing needs. Patterned after the Comprehensive Grant program, it consolidated the following programs: public housing modernization; public housing development; Major Reconstruction of Obsolete Public Housing Projects; and public housing development amendments.

Capital Fund grants can be used to support the following activities: (1) development, financing and modernization of public housing projects; (2) vacancy reduction; (3) deferred maintenance; (4) planned code compliance; (5) management improvements, including those which support resident participation; (6) demolition and replacement; (7) resident relocation; (8) capital expenditures for resident empowerment assistance and self-sufficiency; (9) capital expenditures for drug elimination, security and safety, and (10) homeownership. Development of a locally prepared five-year and annual plans, and improved accountability requirements are expected to ensure that capital improvement funds are utilized in a timely and focused manner.

Providing a steady stream of funding through a formula-driven system allows PHAs to carry out realistic plans for their long-term capital needs in a systematic and cost-effective manner. PHAs will also be able to leverage funds with other public and private partnership entities to meet their affordable housing goals. Non-troubled PHAs with less than 250 units have complete flexibility for the use of both capital and operating funds among eligible Capital Fund and Operating Fund activities. For large non-troubled PHAs, this flexibility is limited to 20 percent.

Public Housing Reinvestment and Financial Reform. The Budget proposes to allow housing authorities to use up to \$120 million from the Capital Fund and up to \$130 million from the Operating Fund for a new initiative to facilitate the financing of capital improvements and to encourage development-based financial management and accountability.

This initiative promises to improve physical conditions for public housing residents by enabling housing authorities to attract private capital to address the existing \$20 billion backlog in public housing capital improvement needs. It will also put these developments on a sound management and financial footing by focusing on property-based planning and management.

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These objectives will be achieved by authorizing HUD to approve, on a property-by-property basis, housing authority requests to convert public housing developments or portions of developments to project-based voucher assistance subject to the receipt of private financing. Such assistance could be provided on the site of an existing public housing development, or on other sites, provided that the number of public housing units converted equals the number of units receiving project-based voucher assistance after the conversion. Converting to project-based vouchers also would relieve housing authorities from many of the complex rules governing the public housing program, and would give residents of converted developments additional housing choices, since they could choose to move with their vouchers after 1 year.

This initiative will make it possible for housing authorities to secure private financing to rehabilitate or replace their aging properties by pledging the property to secure private loans for capital improvements. Without this infusion of private funds, housing authorities will be unable to address the existing backlog of capital needs, and some residents will continue to live in substandard housing for years to come. The capital needs of a substantial part of the public housing stock may be able to be addressed through private financing, without significant annual subsidy increases.

Conversions to project-based vouchers also will encourage housing authorities to use the same market-based "asset management" principles that are used in private sector real estate finance and management. This will enable them to make important financial and management decisions on a property-by-property basis, since project-based voucher subsidies from HUD will be provided to support a specific property, based on that property's individual characteristics and relative position in the market. By contrast, in the existing public housing funding system, HUD provides subsidies to a housing authority for all of its properties on an aggregate basis. That approach often leaves housing authorities without the appropriate information or incentives to make the best long-term capital investment and housing management decisions, taking into account the condition and potential of their individual properties.

The initial year of any contract for project-based voucher assistance under this proposal may be funded with amounts appropriated for the public housing capital fund or operating fund or from other amounts appropriated for this purpose. Any renewal of such contracts would be funded with amounts appropriated for the renewal of Section 8 vouchers.

Project-based voucher assistance provided to developments converted from public housing would be administered generally under the existing program for project-based Section 8 vouchers, with some exceptions to facilitate conversions and administration of the program. For example, the provision in the project-based voucher program that limits the number of vouchers in a building to 25 percent of the units would not apply to conversions under this proposal.

Public housing units converted to project-based voucher assistance generally would be subject to use restrictions requiring the units to be maintained as assisted housing and provided project-based voucher assistance for the same length of time as they would have been if they had remained in the public housing program, subject to the availability of appropriations to renew contracts for assistance payments.

Rents would not exceed project-based voucher levels and would be set at a level that is sufficient to cover the cost of the conversion to project-based assistance, including debt service payments on obligations to finance the cost of any necessary rehabilitation, contributions to a capital reserve, amounts necessary for adequate debt service coverage, and the cost of the subsequent operation of the housing with project-based voucher assistance. Where necessary for ongoing financial feasibility, housing authorities could use the public housing Capital Fund, HOPE VI, or other sources to provide up-front write-downs of capital costs.

Credit enhancement for private financing would be provided through a common loan loss reserve account, established by the Secretary, to which housing authorities converting public housing to project-based vouchers may contribute a percentage of their capital, operating, or other eligible grant funds. The loan loss reserve would be used to reimburse any lender who provides financing to a housing authority for necessary renovations if the housing authority defaults on repayment of the loan.

Reserve for Disasters and Emergencies. A reserve of \$75 million will be maintained in the Capital Fund for grants to PHAs for emergency capital needs resulting from emergencies and natural disasters.

Neighborhood Networks. Pursuant to section 9(d)(1)(E) of the United States Housing Act of 1937, \$15 million shall be for a Neighborhood Networks initiative for capital management improvements.

Technical Assistance and Intervention Funds. Pursuant to section 9(h) of the Public Housing Reform Act of 1998, the fiscal year 2003 Budget request includes \$54 million for public housing technical assistance, training, intervention, income integrity, management improvement support, and annual physical evaluations of assisted properties. During fiscal year 2003 an increase in the number of troubled PHAs is expected based on the implementation on an interim basis of the Public Housing Assessment System (PHAS). It is estimated that up to 300 troubled PHAs will require normal servicing and focused intervention activities by the Troubled Agency Recovery Centers (TARCs). This represents an increase of approximately 600 percent over the current fiscal year number of troubled and near-troubled PHAs serviced by the TARCs.

In order to reduce the incidence of agencies being designated as troubled, the Department continues to place a high priority on the implementation of preventive measures, notably training for near-troubled PHAs. The TARCs develop and implement an intervention strategy or technical assistance option to improve the PHA's performance to a passing level. This is consistent with Congress' and the Department's emphasis that troubled PHAs must bring their operations up to standard.

Funds are required to support the activities of the PIH Real Estate Assessment Center (REAC) and the TARCs, which include the inspection, assessment, monitoring and recovery of PHAs. The REAC is now a part of PIH, but will provide support for housing related assessments to the Office of Housing, as in the past.

HUD and contractors of troubled PHAs, under the new Section 8 Management Assessment Program (SEMAP) will use, up to \$10 million of available budget authority for assessment. These funds also will be used to provide technical assistance, training, management improvement support, and other intervention activities to improve the performance of PHAs that are rated troubled under SEMAP.

In addition, up to \$3 million will be used to fund the Random Digit Dialing surveys that are used to calculate local Fair Market Rent (FMR) levels for the Housing Choice Voucher Program. This represents an increase from previous years' funding levels for this purpose that have generally amounted to approximately \$1.5 million annually. The increased funding will allow HUD to conduct more frequent regional and local surveys to ensure the FMRs are accurately calculated throughout the nation, particularly in light of recent fluctuations in housing costs as a result of rising energy and other costs. It is also critical to establish a permanent, stable source of funding for these critical functions. Up to \$1.2 million will be used for HUD's annual, comprehensive customer survey of Housing Choice Voucher program recipients as to the living and housing conditions of their homes. The survey will allow HUD to better target monitoring and technical assistance where improvements may be needed. HUD is greatly encouraged by the preliminary results of its first comprehensive nationwide Customer Survey.

Funds are also required for the provision of contract expertise, training, technical assistance and supportive systems required by the Department to support and enhance the oversight and management of public housing or tenant-based assistance, as authorized by Section 9(h) of the United States Housing Act of 1937. Among the activities included are the following: inspections and technical assistance for capital programs; resident surveys; data collection and analysis; training and technical assistance for PHA employees and residents; and the development of computer, management and financial systems to facilitate the fulfillment of Headquarters responsibilities relative to the management, review and oversight of information pertaining to the status or the provision of support for PHAs.

Resident Opportunities and Self-Sufficiency. This Budget proposes \$55 million for the Resident Opportunities and Self Sufficiency (ROSS) program. Section 34 of the United States Housing Act of 1937 and for residents of housing assistance under the Native

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American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) authorizes funds for a linkage of public housing resident services to promote economic self-sufficiency. The program provides a vital connection between the delivery of housing assistance and other services that are necessary to improve the quality of life for public housing residents.

The program is intended to improve linkages to assisted housing residents by: (1) implementing supportive services and resident empowerment activities; and (2) assisting residents to become economically self-sufficient. Grants will be made to public housing agencies, Indian tribes and Tribally Designated Housing Entities (TDHEs), resident management corporations, resident councils, and resident organizations including non-profit entities supported by residents.

Eligible activities include, but are not limited to: physical improvements, academic skills training, resident management activities, health care for seniors in public housing, micro enterprises, small business development and start-ups, enhanced Self-Sufficiency and Welfare to Work initiative and social service support programs. Grants will be awarded competitively through a Notice of Funding Availability (NOFA). ROSS is consistent with the Department's goal to focus resources on "welfare to work" and independent living for the elderly and disabled.

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

The Capital Fund is essential to achieve HUD's Strategic Goal 3: Improve the Quality of Public Housing and Provide More Choices for its Residents, and Strategic Goal 7: Ensure equal opportunity and access to housing.

SELCECTED PERFORMANCE MEASURES

NOTE: Targets are preliminary and may be revised with the submission of the full APP document.

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Goal 3: Improve the quality of public housing and provide more choices for its residents.			
Discretionary BA (Dollars in Thousands)	\$2,993,400	\$2,843,400	\$2,370,900
FTE			
Headquarters	390	368	360
Field	183	268	262
Subtotal	573	636	622
Strategic Objective 3.2: Improve the management accountability for public and assisted housing.			
Indicator: Among households living in public housing and subsidized multifamily properties, the share living in developments that have substandard financial management decreases by 2.5 percentage points.	8.8%	3.8%	1.3%
Indicator: The utilization of Housing Choice Vouchers increases by 1 percentage point from the fiscal year 2002 level to 95 percent.	Data Not Available	94%	95%

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STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Indicator: The share of the Housing Choice Voucher program administered by housing agencies with substandard lease-up rates decreases by 10 percent	39.9% anticipated	35.9%	32.3%
The number of public housing units managed by troubled housing agencies that are assigned to TARC as of October 1, 2002, decreases by 15 percent by September 30, 2003.	NA	15%	15%
The share of public housing residents who feel that housing agency managers take action when residents in the development break rules increases by 5 percentage points.	71%	NA	76%
The share of Housing Choice Voucher units managed by troubled housing agencies decreases by 5 percentage points.	25.1%	20.1%	15.1%
Strategic Objective 3.3: Improve physical and related conditions in public and assisted housing.			
Indicator: The share of public housing and assisted multifamily units that meet HUD-established physical standards increases by 1.5 percentage points.	88.2%	91.2%	92.7%
Indicator: The share of HUD-Assisted Properties observed with Exigent Health and Safety or Fire Safety Deficiencies decreases by 1.0 percentage point for public housing and by 0.6 percentage points for assisted multifamily housing.	48.3% anticipated	47.3%	46.3%
Indicator: As part of the efforts to eliminate 100,000 units of the worst public housing, demolish 13,000 units during fiscal year 2003.	13,513	13,000	13,000
The average satisfaction of assisted renters and public housing tenants with their overall conditions increases by 1 percentage point.	71%	72%	73%
The share of public housing residents who feel safe or very safe increases by 1 percentage point.	68.7%	69.7%	70.7%
Indicator: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors increases by 1.2 percentage points for public housing and by 0.7 percentage points for assisted multifamily housing.	90.1%	91.3%	92.5%
Strategic Goal 7: Ensure equal opportunity and access to housing.			

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Discretionary BA (Dollars in Thousands)	\$0	\$0	\$55,000
FTE			
Headquarters	0	0	8
Field	0	0	6
Subtotal	14
Strategic Objective 7.3: Improve housing options for the elderly.			
Indicator: The number of elderly households living in private assisted housing developments served by a service coordinator for the elderly increase by 10 percent.	Baseline to be Determined	Baseline +10%	Baseline +20%
FTE Total	573	636	636

NA = Not Applicable

NOTE: The fiscal year 2001 FTE figure includes 268 FTEs from Real Estate Assessment Center, which was not a part of Public and Indian Housing in fiscal year 2001.