

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PUBLIC AND INDIAN HOUSING

PUBLIC HOUSING OPERATING FUND

PROGRAM HIGHLIGHTS

	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003	INCREASE + DECREASE - 2003 vs 2002
	(Dollars in Thousands)			
HA-owned units under management, end-of-year	1,219,238	1,211,359	1,206,009	-5,350
<u>Budget Authority</u>				
<u>(Appropriations):</u>				
Enacted or Proposed	\$3,242,000	\$3,494,868	\$3,530,000	+\$35,132
Rescission	-\$7,132	...	...	...
Unobligated balance from prior year	\$55,318	\$141,112	...	-\$141,112
Recoveries/Adjustments	<u>\$2,626</u>	<u>...</u>	<u>...</u>	<u>...</u>
Subtotal	\$3,292,812	\$3,635,980	\$3,530,000	-\$105,980
Obligations	\$3,151,700	\$3,635,980	\$3,530,000	-\$105,980
Budget Outlays	\$3,136,980	\$3,385,059	\$3,458,654	+\$73,595

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2003 Budget proposes an appropriation of \$3.530 billion for the Public Housing Operating Fund, which is an increase of \$35 million over the 2002 enacted amount of \$3.495 billion. The requested amount is expected to allow Public Housing Agencies (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 type and level of services to be provided, including any anti-drug and anti-crime activities formerly associated with the Public Housing Drug Elimination Program, are a matter of local determination and priority.

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 fiscal year 2001 following regulatory negotiations as required by the Quality Housing and Work Responsibility Act of 1998. The Department expects to complete action on a final rule in fiscal year 2003.

HUD is proposing that up to \$130 million of the Budget request be used for the Public Housing Reinvestment and Financial Reform initiative, which proposes the conversion of public housing subsidies to project-based voucher assistance where such conversion will enable the financing of any necessary capital improvements at the properties covered by such assistance. This is a new promising initiative that the Department plans to use to address capital needs to be financed on a property-by-property basis as is done in the private sector.

The Budget request also includes \$10 million to be used by the Attorney General to assist in the investigation, prosecution and prevention of violent

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housing, including Indian housing, which shall be administered by the Department of Justice through a reimbursable agreement with the Department.

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2003 Budget request of \$3.530 billion represents an increase in new appropriations of \$35 million above the \$3.495 billion enacted in fiscal year 2002. Outlays for fiscal year 2003 are projected to be \$74 million higher than the fiscal year 2002 current estimate. The increase is due to the second year disbursement of obligations from fiscal year 2002, as well as the spend out of obligations from increased appropriations requested for fiscal year 2003.

The table below reflects the funding for the primary elements comprising the proposed fiscal year 2003 Budget request.

	ESTIMATE <u>2003</u> (Dollars in Millions)
Public Housing Operating Fund Base....	\$3,159 a/
Alternative Subsidy Projects.....	145
Non-dwelling Units.....	13
Family Self-Sufficiency.....	23
Unit Reconfigurations.....	16
Transition funding for demolitions....	21
Disregard of Earned Income for Certain Unemployed.....	-6
MTW Block Grant, PHAs Not In Base	235
Funding for Resident Participation....	31
AEL increases for PHAs 250-499 units..	31
Debt Service Coverage.....	20
Less estimated savings from:	
Changes in Rental Income/Income Targeting	-168
Less estimated savings from:	
Reimbursement to Department of Justice	<u>10</u>
Total Current Year Requirements...	\$3,530
Enacted or Proposed.....	\$3,530

a/ Up to \$130 million may be used to support the new Public Housing Reinvestment and Financial Reform initiative describe in more detail in the Public Housing Capital Fund.

Specific factors affecting the fiscal year 2003 operating subsidy estimates are:

1. Economic Assumptions. The fiscal year 2003 estimates incorporate the most recent economic assumptions about inflation, and presume a 2.3 percent increase in non-utility costs, and a 4.8 percent increase in utility rates. Increases in tenant income are reflected separately under "Change in Rental Income/Income Targeting." The calculation of individual HA 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 HA is located and non-wage expenses.

2. Adjustments to Operating Subsidy Requirements. The fiscal year 2003 estimate reflects adjustments in operating subsidy requirements for various HA income and expense factors based on existing procedures and regulations affecting tenant rent payments and HA operating costs. These adjustments reflect the following factors:

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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 due to the unique characteristics of these PHAs.

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 HA with a HUD-approved FSS Action Plan. The estimated cost also includes the subsidy of one non-dwelling unit in each FSS HA for the provision of supportive services. The average salary for a full-time FSS coordinator per PHA is \$63,000 for fiscal year 2003.

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.

e. Transition Funding for Demolitions. A provision of the Operating Fund provides a short transition period of funding for HAs 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 HAs to reduce overhead costs in a planned and orderly manner when the inventory of units is reduced by demolition.

f. Earned-Income Disregard. The Quality Housing and Work Responsibility 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. The goal of the earned-income disregard is to enable the resident at the end of the transition period to have achieved a higher level of income. The higher income level will eventually result in the ability of a resident to make a greater rent contribution and, thus, decrease the subsidy needs.

g. Changes in Rental Income/Income Targeting. The Quality Housing and Work Responsibility Act of 1998 allows HAs to increase income diversity in public housing. This estimate also reflects the treatment of income expressed in the new formula in which a PHA that is successful in increasing its current dwelling rental income when compared to its 3-year average will only lose 50 percent of that increase for subsidy purposes.

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

HA EXPENDITURE PATTERNS

Based on historical data, the table below represents an estimated pattern of HAs expenditures from revenue sources such as rental income, operating subsidy, investment, and other income for fiscal year 2003. Such expenditures may vary substantially for individual authorities.

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

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<u>Category</u>	<u>Annual Expenditures</u>	<u>Percent of Total</u>
Utilities	\$1,465	22
Administration	1,798	27
General Operating Expenses	533	8
Maintenance	2,397	36
Tenant Services	133	2
Protective Services	200	3
Capital Expenditures	67	1
Operating Reserves	<u>67</u>	1
Total, Operating Expenses	\$6,660	100

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 of PHA staff that provide tenant services, as well as 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 operating funds, and is a reserve for emergencies. PHAs can use the funds for any eligible budgeted expenses.

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.

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Public Housing Reinvestment and Financial Reform

The Budget proposes to allow housing authorities to use up to \$120 million from the Public Housing Capital Fund and up to \$130 million from the Public Housing Operating Fund for a new initiative that would facilitate the financing of capital improvements and encourage development-based financial management and accountability. Refer to the Public Housing Capital Fund budget justification for a more complete description of this initiative.

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 2.3: Increase the availability of affordable rental housing.
- Objective 3.1: help families in public and assisted housing make progress toward self-sufficiency and expand homeownership opportunities for public housing residents;
- Objective 3.2: improve the management accountability for public and assisted housing residents;
- Objective 6.1: improve HUD's management and internal controls, including FHA's financial management and resolve audit issues.

SELECTED 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 2: Help families move from rental housing to homeownership.			
Discretionary BA (Dollars in Thousands)	...	...	...
FTE			
Headquarters	...	...	...
Field	...	...	...
Subtotal	...	...	...
Strategic Objective 2.3: Increase the availability of affordable rental housing.			
The number of households with worst case housing needs decreases by 3 percent between 2001 and 2003 among families with children, the elderly, and persons with disabilities.	As Listed: 1,739,000; 997,000; NA anticipated	NA	As Listed: 1,687,000; 967,000; 1,213,000
Among extremely low-income renters, the ratio of assisted households to households with worst case needs or already assisted.	45.2% anticipated	NA	NA
The share of units of low-rent public housing and Section 8 programs that are occupied by families with children, elderly, and persons with disabilities.	NA	NA	NA

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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)	\$3,233,868	\$3,493,868	\$3,529,000
FTE			
Headquarters	93	130	130
Field	140	120	120
Subtotal	233	250	250
Strategic Objective 3.1: Help families in public and assisted housing make progress toward self-sufficiency and become homeowners.			
Indicator: 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.	49%	50%	51%
The number of public housing and Housing Choice Voucher households that have accumulated assets through the Family Self-Sufficiency program increases by 5 percent and the average escrow amount for FSS graduates increases.	2,735	2,872	3,016
Strategic Objective 3.2: Improve the management accountability for public and assisted housing.			
Indicator: The high incidents of program errors and improper payments in HUD'S rental housing assistance programs will be reduced.	60% (estimated)	N/A	51%
Strategic Goal 6: Embrace high standards of ethics, management and accountability.			
Discretionary BA (Dollars in Thousands)	\$1,000	\$1,000	\$1,000
FTE			
Headquarters	10	21	21
Field	50	39	39
Subtotal	60	60	60
Strategic Objective 6.1: Improve HUD's management and internal controls, including FHA's financial management and resolve audit issues.			
The national average PIH Information Center (PIC) on-time reporting rates for public housing and Housing Choice Voucher households will be 90 percent or better.			

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STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
FTE Total	293	310	310

NA = Not Applicable