

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PROJECT-BASED RENTAL ASSISTANCE a/  
(INCLUDING CONTRACT RENEWALS)

PROGRAM HIGHLIGHTS

	<u>ACTUAL</u> 2002	<u>ENACTED</u> 2003	<u>ESTIMATE</u> 2004	INCREASE + DECREASE - <u>2004 vs 2003</u>
	(Dollars in Thousands)			
<u>Obligations</u>				
Total new Obligations .....	\$16,407,863 <u>b/</u>	\$18,192,595 <u>b/</u>	\$4,823,405 <u>g/</u>	-\$13,369,190
<u>New Budget Authority</u>				
Appropriation/Request .....	15,640,975	17,526,559	4,823,405 <u>g/</u>	-12,703,154
<u>Advanced Appropriations</u>				
Advance Appropriation				
(Available October 1, 2001) ..	4,200,000	...	...	...
Advance Appropriation				
(Available October 1, 2002) ..	-4,200,000	4,200,000	...	-4,200,000
Advance Appropriation				
(Available October 1, 2003) ..	...	-4,200,000	...	4,200,000
Subtotal .....	...	...	...	...
<u>Enacted Rescission</u>				
Rescission .....	-1,200,000	-1,100,000	-300,000	800,000
Supplemental Rescission .....	-388,500	...	...	...
Subtotal .....	-1,588,500	-1,100,000	-300,000	800,000
Net Budget Authority .....	14,052,475 <u>c/</u>	16,426,559	4,523,405 <u>g/</u>	-11,903,154
<u>Carryover/Recaptures</u>				
Carryover .....	1,675,812 <u>d/</u>	1,738,036	1,072,000	-666,036
Transfer of Unobligated				
Balances to HANF .....	...	...	-1,072,000	-1,072,000
Recaptures .....	2,417,612 <u>e/</u>	1,100,000 <u>f/</u>	300,000 <u>f/</u>	-800,000
Subtotal .....	4,093,424	2,838,036	300,000	-2,538,036
Total Resources Available .....	18,145,899	19,264,595	4,823,405 <u>g/</u>	-14,441,190
<u>New Incremental/Tenant Protection</u>				
Units .....	50,069	77,300	...	-77,300
Renewals (Units) .....	2,707,231	2,898,255	870,692 <u>g/</u>	-2,027,563
Outlays .....	18,498,526	19,874,411	14,369,000	-5,505,411

a/ This program is the project-based portion of the former Housing Certificate Fund.

b/ Differs from the President's Budget due to rounding.

c/ The President's Budget reflects \$13.931 billion in net BA due to an accounting adjustment of \$121 million. However, Congress enacted a net of \$14.05 billion in new BA in fiscal year 2002.

d/ Excludes \$324,935 in source year 74 contract authority. Includes \$551,186 in collections.

e/ Excludes \$16.64 million in source year 74 contract authority. Differs from the President's Budget by \$121 million due to an accounting adjustment.

f/ Estimated recapture.

g/ In fiscal year 2004, the Section 8 tenant-based rental assistance and project-based moderate rehabilitation programs are requested under the new Housing Assistance for Needy Families (HANF), including any new incremental and tenant protection units.

## Project-Based Rental Assistance

### SUMMARY OF BUDGET ESTIMATES

A total of \$4.823 billion is requested for the Project-Based Rental Assistance program (formerly the Housing Certificate Fund) in fiscal year 2004. This request excludes funding for the Section 8 tenant-based voucher and moderate rehabilitation programs, which are being requested under the new Housing Assistance for Needy Families (HANF).

Of the total amount requested, \$4.72 billion is requested for the renewal of expiring Section 8 project-based contracts, and \$100 million for Contract Administrators. In addition, no less than \$3 million is requested for the Working Capital Fund for development of and modifications to information technology systems that serve or are related to the programs or activities under this account.

### EXPLANATION OF INCREASES AND DECREASES

The net decrease of \$11.9 billion in budget authority from the fiscal year 2003 Budget request is due to several factors. The major factor is the Department's request of Section 8 tenant-based and moderate rehabilitation rental assistance funding under a new account, HANF, which is a decrease of \$12.99 billion. The Department is requesting \$100 million for Contract Administrators, which is a decrease of \$96 million. In addition, the Department is requesting \$4.72 billion for project-based contract renewals to support 870,692 project-based units, which is an increase of \$383 million to renew existing contracts. A \$300 million rescission of prior year obligated balances is proposed for fiscal year 2004, which is an \$800 million increase in budgetary resources above fiscal year 2003 levels.

### PROGRAM DESCRIPTION AND ACTIVITY

1. Contract Renewals. Contract renewals provide funding to renew expiring project-based Section 8 rental assistance contracts covering Loan Management, New Construction/Substantial Rehabilitation, Moderate Rehabilitation SRO, Property Disposition, and Preservation. In fiscal year 2004, \$4.72 billion in new budget authority is requested to renew expiring contracts for an estimated 870,692 units. All contracts are proposed for a renewal of a 1-year term.

The Department has changed the way in which it administers the project-based Section 8 contracts from HAP contracts directly between project owners and HUD to ACC contracts, or contracts between HUD and a third party administrator. This adopts the administrative model used for the tenant-based Section 8 program. Currently, State and Local Housing Finance Agencies constitute the majority of the project-based contract administrators.

It is anticipated that under the Department's Mark-to-Market (M2M) Initiative approximately 158,000 units will be restructured by the end of fiscal year 2004. In many cases, this involves writing-off a portion of the multifamily project's mortgage debt so that its rental charges (and HUD's subsidy) can be brought into line with comparable rents for other projects in the same geographic area. The amount requested for Contract Renewals has been adjusted to reflect this impact.

In contrast, there are many multifamily projects whose rents are far below area market rents for comparable multifamily projects. This is resulting in owners opting-out of the programs, causing a loss of affordable rental units available to low-income families. The Department has taken two steps in rectifying this situation. First, funding is included in the HANF program to provide vouchers for tenants living in projects whose owners decide to leave the program. Secondly, the Department will continue its efforts to retain low-income projects through its M2M Initiative, which allows the project owner to adjust rental charges up to the level of comparable multifamily projects in the area. Again, the funding requested for Contract Renewals has been adjusted to reflect the impact of this Initiative.

2. Section 8 Amendments. 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 that were 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. The current practice of providing contracts for a 1-year term helps to ensure that the problem of inadequately funded contracts is not repeated. However, older long-term contracts must still be provided additional funds to maintain the current inventory of assisted project-based rental housing. In fiscal year 2004, carryover and recaptures from prior year balances will be used to fund Section 8 amendment needs.

3. Contract Administrators. The Administration has taken steps to improve the oversight of HUD's project-based program. The Department currently administers approximately 20,000 Section 8 Housing Assistance Payments (HAP) contracts executed between HUD and private owners of multifamily housing developments. These developments are financed by HUD-insured, HUD-held or

Project-Based Rental Assistance

direct loans. Many of the duties that used to be performed by HUD staff are now be performed by Contract Administrators. These include conducting annual physical inspections, reviewing project financial statements, conducting management and occupancy reviews, reviewing management agents, reviewing insurance draws and releases from replacement reserves, reviewing owner verification of tenant income and eligibility, and pre-validating monthly subsidy payments.

Program Reforms

Verifying that the right person receives the right benefit. HUD research has determined that there is a significant error rate in subsidy calculation. In conjunction with OMB, HUD has established the goal of a 50 percent reduction in the frequency of subsidy calculation and processing errors by 2005.

Since the sources and cause of subsidy payment errors are many and often interrelated, a comprehensive corrective action plan is needed. HUD's prior corrective action focus has been on developing and implementing a large-scale computer matching program with IRS and SSA databases to better address the unreported tenant income issue. While this and other improvement initiatives are ongoing, the Department is implementing the Rental Housing Integrity Improvement Program (RHIP) a comprehensive initiative for addressing rental subsidy errors. Core components of this multi-faceted strategy include: more aggressive monitoring and quality control; education; guidance and training for HUD field staff and POAs (Public Housing Agencies, Owners, and Agents); facilitating state wage matches and other up-front verification initiatives to obtain accurate independent verification of all tenant income; and simplifying program requirements, where feasible.

The effectiveness of HUD's Project-Based Rental Assistance program was evaluated in the past year using the Office of Management and Budget's new Performance Assessment Rating Tool (PART). This program receives low performance scores because it has a poor focus on program outcomes and produces poor results relative to alternative forms of housing assistance, particularly in the areas of cost and maximizing the mobility of assisted families in seeking out the best housing possible. The physical quality of project-based housing has improved significantly in recent years, however in light of this assessment, HUD will make management improvements, including stepped-up enforcement against properties in poor quality. HUD recently announced a new enforcement protocol that will result in 1,200 properties with problems receiving more aggressive oversight and correction. These actions will result in more properties meeting physical quality standards. Also, improved performance measures for self-sufficiency will be developed.

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ENACTED 2003	ESTIMATE 2004
FTE			
Headquarters	257	290	85
Field	595	617	501
Total FTE	852	907	586
S&E Cost (Dollars in Thousands)			
Personal Services	\$72,699	\$79,710	\$50,903
Travel	1,369	2,486	513
Printing	135	177	74
Other Services	2,279	877	943
Supplies	45	47	24
Total S&E Cost	\$76,527	\$83,297	\$52,457

**Project-Based Rental Assistance (Including Contract Renewals)**

The attached tables provide detailed description of the Project-Based Rental Assistance program and a separate table is provided for Contract Renewals:

	<u>Units</u>	<u>Per Unit Cost</u>	<u>Term</u>	<u>Budget Authority</u>
FY 2002:				
Incremental Rental Assistance	17,990	NA	1	103,907,943
Non-Elderly Disabled	6,396	NA	1	39,997,183
Tenant Protections	25,683	NA	1	145,177,146
Regional Opportunity Counseling	NA	NA	1	10,000,000
Section 8 Amendment	NA	NA	1	359,437,574
Welfare-to-Work	NA	NA	1	256,746
Section 8 Preservation Amendment	NA	NA	1	...
Preservation Prepayment Enhanced Vouchers	NA	NA	1	306,518
Section 8 Counseling	NA	NA	1	1,400,000
Job Plus Demonstration	NA	NA	1	...
Working Capital Fund	NA	NA	1	13,400,000
Other	NA	NA	1	...
Contract Administrators	NA	NA	1	147,618,027
Section 514 Technical Assistance	NA	NA	1	8,322,689
HOME (City of New Rochelle)	NA	NA	1	4,592,556
Contract Renewals				
PIH	1,957,522	NA	1	11,532,703,086
CPD-Mod. Rehab. SRO	2,616	NA	1	15,209,064
Housing	747,093	NA	1	4,025,534,146
Recaptures/Reuse	<u>NA</u>	NA	NA	<u>[640,000,000]</u>
Subtotal, Contract Renewals	2,707,231			15,573,446,296
 Total, FY 2002 Obligations	 2,757,300			 16,407,862,678
 Total FY 2002 Unobligated Funds				 1,738,035,915

**Project-Based Rental Assistance (Including Contract Renewals)**

<u>FY 2003:</u>	<u>Units</u>	<u>Per Unit Cost</u>	<u>Term</u>	<u>Budget Authority</u>	<u>Carryover</u>	<u>Program Level</u>
Incremental Rental Assistance	34,000	6,005	1	204,170,000	271,332	204,441,332
Tenant Protections - Hsng	30,300	6,005	1	181,951,500	128,488,902	310,440,402
Tenant Protections - PIH	13,000	6,005	1	78,065,000	...	78,065,000
Non-Elderly Disabled	[5,949]	NA	1	[40,000,000]	2,817	2,817
Olmstead Tenant Protections	[1,000]	NA	1	[6,005,000]	...	[6,005,000]
Section 8 Amendment	NA	NA	1	...	22,553,015	22,553,015
Welfare-to-Work	NA	NA	1	...	909	909
Preservation Prepymnt Enhanced Voucher:	NA	NA	1	...	112	112
Section 8 Preservation Amendment	NA	NA	1	...	1,762,428	1,762,428
Preservation	NA	NA	1	...	92,587	92,587
Section 8 Counseling	NA	NA	1	...	1,856,698	1,856,698
Job Plus Demonstration	NA	NA	1	...	5,617,898	5,617,898
Working Capital Fund	NA	NA	1	3,000,000	...	3,000,000
Other	NA	NA	1	...	2,023,638	2,023,638
Contract Administrators	NA	NA	1	196,000,000	93,063,515	289,063,515
<b>Contract Renewals</b>						
PIH	2,077,336	6,005	1	12,526,402,680	91,883,486 a/	12,618,286,166
CPD-Mod, Rehab. SRO	3,645	4,611	1	16,808,126	2,310,910	19,119,036
Housing	817,274	NA	1	4,320,162,044	316,107,668	4,636,269,712
Subtotal, Contract Renewals	2,898,255			16,863,372,850	410,302,064	17,273,674,914
Subtotal, FY 2003	2,975,555			17,526,559,350	666,035,915	18,192,595,265
Rescission	NA	NA	1	(1,100,000,000)	...	(1,100,000,000)
FY 2002 Recaptures				...	1,072,000,000	1,072,000,000
Anticipated Recaptures				1,100,000,000	...	1,100,000,000
Total, FY 2003				17,526,559,350	1,738,035,915	19,264,595,265

a/ Includes approximately \$53 million to replenish PHAs 1 month reserves.

Project-Based Rental Assistance (Including Contract Renewals)

<u>FY 2004:</u>	<u>Units</u>	<u>Per Unit Cost</u>	<u>Term</u>	<u>Budget Authority</u>
Contract Administrators	NA	NA	1	100,000,000
Working Capital Fund	NA	NA	1	3,010,000
Contract Renewals				
CPD-MOD. Rehab. SRO	5,014	4,690	1	23,515,660
Housing	<u>865,678</u>	NA	1	<u>4,696,879,719</u>
Subtotal, Contract Renewals	870,692			4,720,395,379
Rescission				(300,000,000)
Total, Project-Based Rental Assistance	870,692			4,523,405,379

NOTE: In fiscal year 2004, the Department is proposing a new Housing Assistance for Needy Families Program (HANF) to replace the current Section 8 tenant-based rental assistance and project-based moderate rehabilitation programs. Starting in fiscal year 2004, the Section 8 tenant-based rental assistance and moderate rehabilitation funding will be requested under the new Housing Assistance for HANF.

Project-Based Rental Assistance  
Contract Renewal Estimates  
Policy Fiscal Year 2004

	<u>Units</u>	<u>Average Cost</u>	<u>Funding Requirements</u>
<u>Fiscal Year 2004:</u>			
Section 202/8 renewed at current rents	118,433	6,030	714,150,990
New Construction/Substantial Rehabilitation	383,592	5,322	2,041,476,624
Loan Management Set-Aside	330,559	4,876	1,611,805,684
Property Disposition	37,430	6,926	259,240,180
Preservation	50,029	6,694	334,894,126
Mod Rehab.	6,235	5,649	35,221,515
Housing Tenant Protection	<u>(60,600)</u>	4,949	<u>(299,909,400)</u>
Subtotal Housing	865,678		4,696,879,719
CPD-Mod. Rehab. SRO	<u>5,014</u>	4,690	<u>23,515,660</u>
Subtotal, Contract Renewals	870,692		4,720,395,379