

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
	(Dollars in Thousands)			
<u>Budget Authority</u>				
Enacted or Proposed	\$2,843,400	\$2,425,900	\$2,641,000	\$215,100
Leverage Funding Financing				
Initiative	[...]	[417,500]	[...]	[-417,500]
ROSS	[...]	[55,000] a/	[40,000] b/	[-15,000]
Loan Guarantee	[...]	[...]	[131,000]	[131,000]
Neighborhood Networks	[15,000]	[15,000]	[...]	[-15,000]
Emergency Disaster Reserve ...	[75,000]	[75,000]	[40,000]	[-35,000]
Working Capital Fund	[52,700]	[19,000]	[10,610]	[-8,390]
Technical Assistance	[51,000]	[54,000]	[50,000]	[-4,000]
Demolition Grants	[...]	[...]	[30,000]	[30,000]
Net Budget Authority	2,843,400	2,425,900	2,641,000	215,100
<u>Carryover</u>				
Carryover/Recaptures	708,955	751,128	117,000	-634,128
Total	3,552,355	3,177,028	2,758,000	-419,028
<u>Obligations</u>				
Obligations	2,801,227	3,060,028	2,718,000	-342,028
<u>Outlays</u>				
Outlays	3,767,261	3,601,411	3,807,567	206,156

a/ Funded in Community Development Block Grants in fiscal year 2002.

b/ An additional \$15 million is included in the Public Housing Operating Fund.

SUMMARY OF BUDGET ESTIMATES

The Budget proposes an appropriation of \$2.641 billion for the Public Housing Capital Fund in fiscal year 2004. Of the total amount requested, \$2.339 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. Up to \$40 million is for the Resident Opportunities and Self-Sufficiency (ROSS) program. In addition, no less than \$10.61 million will be used for the development and maintenance of information technology systems related to public housing. Up to \$50 million is designated for technical assistance, and up to \$131 million will be used for partial guarantees of loans to finance capital improvements in connection with the conversion of public housing subsidies to project-based voucher assistance. Up to \$40 million shall be available to make grants to PHAs for capital needs resulting from emergencies and natural disasters in fiscal year 2004. Up to \$30 million of the requested amount will be for demolition of obsolete public housing units.

EXPLANATION OF INCREASES AND DECREASES

The fiscal year 2004 Budget continues to make funds available to PHAs to address rehabilitation needs. Estimated obligations decrease due to a smaller amount of projected carryover funding into fiscal year 2004. Outlays are projected to increase as funds in the pipeline continue to spend out.

PROGRAM DESCRIPTION AND ACTIVITY

The Quality Housing and Work Responsibility Act of 1998 authorized the Capital Fund expands the scope of its predecessor program by consolidating all public housing capital programs (except HOPE VI) and allows greater local flexibility in decisions on major capital initiatives and management improvements undertaken by PHAs. Capital Fund grants may 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.

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.

Public Housing Reinvestment Initiative (PHRI) and Loan Guarantee. Up to \$131 million will be used for the partial guarantee of \$1.7 billion loans to facilitate the financing of capital improvements and to encourage development-based financial management and accountability. Each dollar used supports financing of \$13 in capital expenditures. The availability of this loan guarantee, for up to 80 percent of loan principal, should substantially increase lender participation in the Public Housing Reinvestment Initiative (PHRI). The necessary legislation to enact PHRI and the partial loan guarantee is contained in the administrative provisions of the Department's budget.

A reform proposal similar to PHRI was also included in the Administration's fiscal year 2003 Budget proposal. The partial loan guarantee proposed this year is a significant enhancement to last year's initiative, and promises to improve physical conditions for public housing residents by enabling housing authorities to attract private capital to address the existing backlog in public housing capital improvement needs. The PHRI will also put developments on a sound management and financial footing by focusing on property-based planning and management.

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. In addition to allowing property-based financing, converting to project-based vouchers would relieve housing authorities of many of the complex rules governing the public housing program, and would give residents of converted developments an opportunity to move after one year. For up to one fourth of the units, such residents could be replaced by unassisted families and the PHA could use the subsidy for those units to fund additional vouchers.

The PHRI 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 housing authorities 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. HUD's current 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 would be funded by housing authorities' commitment of capital and operating funds they have received under the formulas. 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. These restrictions would require 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. This cost includes 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 or other sources to provide up-front write-downs of capital costs.

Reserve for Disasters and Emergencies. A reserve of \$40 million will be maintained in the Capital Fund for grants to PHAs for emergency capital needs resulting from emergencies and natural disasters.

Technical Assistance and Intervention Funds. Pursuant to section 9(h) of the Public Housing Reform Act of 1998, the fiscal year 2004 Budget request includes \$50 million for public housing technical assistance, training, intervention, income integrity, management improvement support, and annual physical evaluations of assisted properties. During fiscal year 2004, 225 PHAs are expected to be designated troubled based on previous year's data from the Public Housing Assessment System (PHAS) and trend analysis.

In order to reduce the incidences of agencies being designated as troubled, the Department continues to place a high priority on the implementation of preventive measures, notably training and technical assistance for near-troubled PHAs. PIH develops strategies for intervention and specialized technical assistance used to improve the PHA's performance to a satisfactory level. This is consistent with Congress' and the Department's emphasis that troubled PHAs must bring their operations up to the designated standards.

Funds are required to support the ongoing activities of the PIH Real Estate Assessment Center (REAC), and for the troubled agency recovery activities, which include the inspection, assessment, monitoring, and recovery of PHAs. The REAC both is an integral part of PIH, and will continue to provide support for housing-related assessments to the Office of Housing.

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. Activities include: inspections and technical assistance for capital programs; random digit dialing and customer satisfaction 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 and oversight of information pertaining to the status or the provision of support for PHAs.

Resident Opportunities and Self-Sufficiency. This Budget proposes a total of \$55 million for the Resident Opportunities and Self Sufficiency (ROSS) program of which \$40 million will be funded out of the Capital Fund account and \$15 million out of the Operating Fund account. Section 34 of the United States Housing Act of 1937 and for residents of housing assistance under the Native 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.

Public Housing Capital Fund

The program improves linkages to assisted housing residents by: (1) making supportive services and resident empowerment activities available; and (2) assisting residents to become economically self-sufficient. Grants will be made to PHAs, 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.

Demolition Grants. This Budget request \$30 million to be used for relocation, demolition, and site remediation for obsolete and distressed public housing units. These funds will be used to accomplish a portion of the demolition and related activities that were formerly executed under the Revitalization of Severely Distressed Public Housing (HOPE VI) Program and other approved demolitions.

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	332	342	342
Field	266	267	267
Total FTE	598	609	609
S&E Cost (Dollars in Thousands)			
Personal Services	\$54,189	\$56,776	\$58,310
Travel	3,230	3,000	3,348
Printing	57	62	63
Other Services	1,083	2,237	3,233
Supplies	36	35	35
Total S&E Cost	\$58,595	\$62,110	\$64,989