

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PUBLIC AND INDIAN HOUSING

PUBLIC HOUSING OPERATING FUND

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
	(Dollars in Thousands)			
HA-owned units under management, end-of-year	1,208,730	1,206,009	1,204,217	-1,792
<u>Budget Authority</u>				
<u>(Appropriations):</u>				
Enacted or Proposed	\$3,494,868	\$3,530,000	\$3,574,000	\$44,000
Unobligated balance from prior year	141,112	26,032	...	-26,032
Recoveries/Adjustments	<u>25,585</u>
Subtotal	3,661,565	3,556,032	3,574,000	17,968
Obligations	3,635,534	3,556,032	3,574,000	17,968
Budget Outlays	3,635,148	3,457,122	3,564,929	107,807

SUMMARY OF BUDGET ESTIMATES

The fiscal year 2004 Budget proposes an appropriation of \$3.574 billion for the Public Housing Operating Fund. Of the requested amount, \$3.559 billion will be distributed by formula to approximately 3,050 Public Housing Agencies (PHAs) that own or manage 1.2 million rental units. Funding of the request will enable PHAs to provide decent, safe, and sanitary housing for lower-income families. This request reflects the requirements for fiscal year 2004 only. No portion of the request will be used for prior fiscal year shortfalls.

The Budget request includes \$15 million for the Resident Opportunities and Self Sufficiency (ROSS) program. This amount will be set aside by HUD and not distributed by formula to PHAs. An additional \$40 million for ROSS activities will be funded out of the Public Housing Capital Fund account. ROSS was previously funded in the Community Development Block Grant program.

EXPLANATION OF INCREASES AND DECREASES

The Operating Fund request of \$3.574 billion for fiscal year 2004 is \$44 million above the \$3.530 billion amount proposed for fiscal year 2003. Increases are primarily due to economic assumptions concerning non-utility and utility costs. Non-utility costs are presumed to increase by 1.7 percent, utility rate increases are projected to be 2.0 percent higher than fiscal year 2003, and tenant income changes are flat. For fiscal year 2004, new assumptions have also been made with regard to minimum rents and improvements to rental calculations that are expected to increase rental revenue to PHAs.

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Housing Agencies (HAs) EXPENDITURE PATTERNS

The table below reflects the funding for the primary elements comprising the proposed fiscal year 2004 Budget request.

	ESTIMATE 2004 (Dollars in Millions)
Public Housing Operating Fund Base.....	\$3,239
Alternative Subsidy Projects.....	136
Non-dwelling Units.....	9
Elderly/Disabled Coordinators.....	26
Unit Reconfigurations.....	17
Transition funding for demolitions.....	18
Disregard of Earned Income for	
Certain Unemployed.....	10
Other Approved & Federal Law & Reg.....	11
MTW Block Grant, PHAs Not In Base.....	256
Funding for Resident Participation.....	25
ROSS	15
Less estimated savings from:	
Changes in Rental Income/Income Targeting	-54
New minimum rent requirements.....	-34
Improvements to rental income calculations	-100
Total Budget Year Request.....	\$3,574
Enacted or Proposed.....	\$3,574

Specific factors affecting the fiscal year 2004 operating subsidy estimates are:

1. Economic Assumptions. The fiscal year 2004 estimate incorporate the most recent economic assumptions about inflation, and presume a 1.7 percent increase in non-utility costs, and a 2.0 percent 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 as well as non-wage expenses.

2. Adjustments to Operating Subsidy Requirements. The fiscal year 2004 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:

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. Elderly/Disabled Service Coordinators. The estimate reflects funding for the annual renewal of the public housing elderly and/or disabled service coordinators.

d. Unit Reconfiguration. The estimate for unit reconfigurations include 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 Demolition. 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 Section 8 vouchers for relocation and/or replacement purposes. 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.

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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 PATTERN

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 2003. Such expenditure 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 Total</u>
Utilities	\$1,477	22%
Administration	1,813	27%
General Operating Expenses	537	8%
Maintenance	2,417	36%
Tenant Services	134	2%
Protective Services	201	3%
Capital Expenditures	67	1%
Operating Reserves	67	1%
Total, Operating Expenses	6,713	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 insurances, 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.

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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.

The 2004 Budget request reflects the requirements for fiscal year 2004. No portion of the request will be used for prior fiscal year shortfalls. The Department is aggressively exploring options to improve the timeliness and accuracy of the delivery of operating funding to PHAs. The Department has taken action and is committed to improving our information systems that will result in better management of the program.

For fiscal year 2004, the Department will fund the annual renewal of the public housing elderly and/or disabled service coordinators from the Public Housing Operating Fund instead of the Resident Opportunities and Self-Sufficiency (ROSS) program. For fiscal year 2004, the Department is also proposing that the Family Self-Sufficiency program no longer be funded as an add-on to the Public Housing Operating Fund. The ROSS program allows for self-sufficiency activities that are similar to the Family Self-Sufficiency program. These changes will align funding and more effectively target resources.

Resident Opportunities and Self-Sufficiency(ROSS). HUD's Budget proposes a total of \$55 million for the ROSS program of which \$40 million will be funded out of the Public Housing Capital Fund and \$15 million out of the Public Housing Operating Fund. 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.

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.

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	139	145	145
Field	155	154	154
Total FTE	294	299	299
S&E Cost (Dollars in Thousands)			
Personal Services	\$26,432	\$27,672	\$28,419
Travel	648	1,220	1,220
Printing	114	124	126
Other Services	100	100	150
Supplies	20	20	20
Total S&E Cost	\$27,314	\$29,136	\$29,935