

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
2005 Summary Statement and Initiatives
(Dollars in Thousands)**

PUBLIC HOUSING CAPITAL FUND	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2003 Appropriation	\$2,730,000	\$760,636 ^a	-\$17,745	\$3,472,891	\$2,783,261	\$3,664,912
2004 Appropriation/Request	2,712,255	689,630	-16,002	3,385,883	3,241,482	3,716,420
2005 Request	<u>2,674,100</u>	<u>144,401</u>	...	<u>2,818,501</u>	<u>2,674,100</u>	<u>3,742,563</u>
Program Improvements/Offsets	-38,155	-545,229	16,002	-567,382	-567,382	26,143

a/ Includes \$16 million in recaptures and excludes \$7 million in Source Year 1974 contract authority withdrawn.

Summary Statement

The Department is requesting a total of \$2.67 billion for the Public Housing Capital Fund account. Of the total amount requested, \$2.485 billion will assist housing authorities in carrying out capital and management activities and is sufficient to cover the accrual of additional capital needs. In addition, up to \$50 million is requested to make grants to PHAs for capital needs resulting from emergencies and natural disasters in fiscal year 2005, \$35 million is requested for public housing technical assistance, \$30 million is requested for the demolition of obsolete public housing units, and \$54.7 million is requested for the Resident Opportunities and Self-Sufficiency program. Further, the Department is requesting \$10 million to support the cost of administrative and judicial receiverships or other intervention, \$5 million for the Freedom to House Demonstration initiative, and \$4.5 million for the development and maintenance of information technology systems related to public housing.

This 2005 request represents an overall decrease of \$38 million from the 2004 enacted level of \$2.712 billion. The fiscal year 2005 Budget continues to make funds available to Public Housing Authorities (PHAs) to address rehabilitation and modernization needs. The overall level of funding requested is commensurate with the estimated annual accrual rehabilitation and modernization needs of the public housing inventory. The decrease in estimated obligations in fiscal year 2005 is attributed to a projected smaller amount of carryover funding from fiscal year 2004. The outlay estimates for fiscal year 2005 remain relatively consistent with previous years, as funds in the pipeline continue to be expended.

Initiatives

The Department is proposing two new initiatives for this program-Freedom to House Demonstration and Administrative Receivership. These two initiatives are discussed in detail in the program offset section of this Budget.

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Summary of Resources by Program
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2003 Budget Authority</u>	<u>2002 Carryover Into 2003</u>	<u>2003 Total Resources</u>	<u>2003 Obligations</u>	<u>2004 Budget Authority/ Request</u>	<u>2003 Carryover Into 2004</u>	<u>2004 Total Resources</u>	<u>2005 Request</u>
Formula Grants	\$2,523,392	\$717,610	\$3,241,002	\$2,710,074	\$2,526,152	\$530,337	\$3,056,489	\$2,484,900
Emergency/Disaster Reserve	49,675	...	49,675	9,546	39,764	40,129	79,893	50,000
Technical Assistance ..	50,668	38,821	89,489	34,512	49,705	55,552	105,257	35,000
Demolition Grants .....	...	...	...	...	...	...	...	30,000
Resident Opportunities and Supportive Services	54,642	1,303	55,945	9,141	54,676	46,819	101,495	54,700
Administrative Receivership .....	...	...	...	...	...	...	...	10,000
Freedom to House Initiative .....	...	...	...	...	...	...	...	5,000
Working Capital Fund ..	18,479	...	18,479	18,479	10,547	...	10,547	4,500
Section 23 Lease Adjustment	497	52	549	497	497	52	549	...
Neighborhood Networks .	<u>14,902</u>	<u>2,850</u>	<u>17,752</u>	<u>1,012</u>	<u>14,912</u>	<u>16,741</u>	<u>31,653</u>	<u>...</u>
Total Public Housing Capital Fund	2,712,255	760,636	3,472,891	2,783,261	2,696,253	689,630	3,385,883	2,674,100
FTE								
Headquarters			81				81	81
Field			<u>142</u>				<u>141</u>	<u>141</u>
Total			223				222	222

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Formula Grants	<u>Amount</u>
2003 Appropriation	\$2,523,392
2004 Appropriation/Request	2,526,152
2005 Request	<u>2,484,900</u>
Program Improvements/Offsets	-41,252

Proposed Actions

The Department proposes \$2.485 billion for Public Housing Capital and Management Activities Formula Grants in fiscal year 2005. This amount is commensurate with the estimated annual accrual rehabilitation and modernization needs of the public housing inventory.

PROGRAM DESCRIPTION AND ACTIVITY

The Quality Housing and Work Responsibility Act of 1998 authorized the Capital Fund and 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 Public Housing Authorities (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.

In fiscal year 2003, the Department completed the distribution of \$2.5 billion appropriated for the Capital Fund program to approximately 3,100 PHAs across the county. This amount included \$444 million set-aside established in the Appropriations Act for PHAs that obligated their fiscal year 1998, fiscal year 1999, fiscal year 2000 and fiscal year 2001 Capital Fund grants in a timely manner in accordance with section 9(j) of the United States Housing Act of 1937, as amended. In addition, as required in the HUD/VA fiscal year 2003 Appropriations Act, (1) \$9.9 million in recaptures was distributed to PHAs that received a High Performer designation under the Public Housing Assessment System (PHAS) in the previous year; (2) the Department reviewed the obligation and expenditure of Capital Fund grants for all PHAs and recaptured funds from PHAs that failed to meet the obligation deadlines in section 9(j); and (3) the Department published a final rule on obligation and expenditure of Capital Funds to implement the requirements of section 9(j) in August 2003.

Pursuant to Sections 9 and 30 of the United States Housing Act of 1937, the Department developed and is implementing a new capital fund financing program that allows PHAs to borrow from banks or issue bonds using their Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, PHAs are able to leverage the Capital Funds provided by the Department to accelerate improvements that would otherwise be postponed well into the future. To date, HUD has approved 23 such transactions in which a total of 61 PHAs are participating (some of these transactions include pools of multiple PHAs). The total amount of loan and bond financing approved to date is over \$1.4 billion.

Public Housing Capital Fund

During fiscal year 2003, the Department submitted a report to Congress on the use of Capital Funds for operations. In addition, the Department reported to Congress quarterly on PHA obligation and expenditures.

In fiscal year 2004 and fiscal year 2005, the Department plans to monitor PHA obligation and expenditures and recapture funds not obligated by the statutory deadline. The Department will promulgate a program regulation to replace the current regulation found at 24 CFR Part 968, prepare and distribute a new Capital Program Guidebook, continue training HUD field staff on the Capital Fund Program, and issue written guidance on loan and bond transactions and the replacement housing factor grants. The Department will also complete the development of an automated formula distribution system. This system will update the current formula software, develop an on-line system for the Capital Fund as well as make information on the Capital Fund available to PHAs on a web-based system. It will convert to an electronic format most of the paper transactions in the current process. The PHAs will benefit significantly from this improvement by receiving their formula funds more expeditiously, thus being able to utilize their funds sooner for the betterment of their housing residents. This system will be consistent with the Department's information technology enterprise architecture that was completed in the fall of 2003. It will also recruit new staff and reorganize the Office of Capital Improvements to strengthen program management and oversight.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Emergency/Disaster Reserve	<u>Amount</u>
2003 Appropriation	\$49,675
2004 Appropriation/Request	39,764
2005 Request	<u>50,000</u>
Program Improvements/Offsets	10,236

Proposed Actions

The Department proposes a reserve of \$50 million to be maintained in the Capital Fund for emergencies and natural disasters. These funds will make grants to public housing agencies for emergencies and natural disasters in fiscal year 2005, or damages from emergencies and natural disasters recognized in fiscal year 2005.

The Department is proposing language that clarifies the use of these funds in fiscal year 2005 from previous years in that the funds would be available for emergency and capital needs resulting from emergencies and natural disasters recognized by the Department in fiscal year 2005. Inspections, damage assessment, development of cost estimates, and latent defects may defer funding of emergencies and natural disasters to subsequent years. Nevertheless, the condition exists during the fiscal year and poses a health and safety risk to the residents and may require funding.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Technical Assistance	<u>Amount</u>
2003 Appropriation	\$50,668
2004 Appropriation/Request	49,705
2005 Request	<u>35,000</u>
Program Improvements/Offsets	-14,705

Proposed Actions

The Department proposes \$35 million for Technical Assistance and Intervention funds in fiscal year 2005. These funds are pursuant to Section 9(h) of the U.S. Housing Act of 1937, as amended (42 U.S.C. 1437g) (the "Act"), and will be used for public housing technical assistance, training, intervention, income integrity, management improvement support, and annual physical evaluations of assisted properties. Of the technical assistance funds made available, \$5 million will be used for providing remediation services to public housing agencies identified as "troubled" under the Section 8 Management Assessment Program and for surveys to calculate local Fair Market Rents and assess housing conditions in connection with rental assistance under Section 8 of the Act.

During fiscal year 2005, 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 is an integral part of PIH, and will continue to provide support for housing-related assessments to the Office of Housing. These funds will also be utilized for acquisition 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.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Demolition Grants	<u>Amount</u>
2003 Appropriation .....	...
2004 Appropriation/Request .....	...
2005 Request	<u>\$30,000</u>
Program Improvements/Offsets	30,000

Proposed Actions

The Department proposes \$30 million for Demolition Grants in fiscal year 2005. These funds are to be used for relocation, demolition, and site remediation for obsolete and distressed public housing units. The Department will award grants through a competitive Notice of Funding Availability (NOFA) process, in conjunction with a PHA's need for funding in order to supplement the cost of demolition activities.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Resident Opportunities and Supportive Services	<u>Amount</u>
2003 Appropriation	\$54,642
2004 Appropriation/Request	54,676
2005 Request	<u>54,700</u>
Program Improvements/Offsets	24

Proposed Actions

The Department is proposing \$55 million for the Resident Opportunities and Self-Sufficiency (ROSS) Program in fiscal year 2005. Under 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), funds are authorized for a linkage of public housing resident services to promote economic self-sufficiency. These funds will be used to provide 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 ROSS Program, through housing agencies, tribes, tribally designated entities, resident groups, and nonprofit resources is focused on economic self-sufficiency and independent living for the elderly and persons with disabilities. Competitive grants are awarded to fund supportive services activities including: youth mentoring, child care, housing and homeownership counseling, job training and placement, case management, computer training, preventive health education, life skills training, housekeeping aid and transportation assistance.

In fiscal year 2003, the ROSS program made awards to 284 grantees for a total of \$43.5 million. The Department made awards to 260 PHAs, 6 tribes, 5 resident associations, and 13 nonprofit organizations. Applications from nonprofit organizations with expertise in providing social services such as job training and continuing education to typically underserved populations were accepted for the first time in fiscal year 2003.

In fiscal year 2003, the Department saw an overall increase in the number of applications to the ROSS program over fiscal year 2002. As a result, the Department expects to increase the total number of awards made over the next 2 years. While the Department cannot fund all applications for reasons such as ineligibility of some applicants or deficient applications, the Department expects the number of awards it makes in 2004 and 2005 to increase. This is due in part to the fact that the nonprofit community, newly eligible in 2003, will continue to be eligible to apply to the program in 2004 and 2005. The number of nonprofit applicants will likely increase over time as more nonprofit organizations learn of this new funding opportunity. In addition, the Public Housing Family Self-Sufficiency (FSS) program will be funded for the first time in 2004 from ROSS. The Public Housing FSS program has largely been a voluntary program with PHAs receiving funding from the Operating Fund. The Department hopes that by making the program competitive, new entrants will come into the program, thereby increasing the total number of ROSS grantees.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Administrative Receivership	<u>Amount</u>
2003 Appropriation .....	...
2004 Appropriation/Request .....	...
2005 Request	<u>\$10,000</u>
Program Improvements/Offsets	10,000

Proposed Actions

The Department is requesting \$10 million to support the costs of administrative and judicial receiverships or other intervention activities. These funds will provide the Department with a source of funds to cover operating and management costs where a court has asserted operational authority over a PHA through a judicial receivership process, or the Department has taken over operational authority of the PHA through an administrative receivership procedure. The activities surrounding receivership or intervention of a PHA cover a wide variety of categories. These activities include a review, reconstruction and audit of the financial accounting and information systems of the PHA. Many times new management must be set in place and the operating structure may have to be reorganized and personnel intensely trained. Procurement actions must be made to support the activities under the receivership team. The average cost of a receivership is estimated at \$1 million per PHA based on the Department's recent experience.

In fiscal year 2003, field offices implemented an aggressive compliance monitoring effort and performed 796 on-site and remote reviews and another 390 Rental Integrity Monitoring (RIM) reviews of approximately 3,100 PHAs across the country. The RIM reviews were conducted at those PHAs, which receive over 80 percent of HUD funding to better target resources and make corrections for those PHAs, which pose the biggest financial risk to the Department. All of the reviews assessed PHA performance and/or compliance with HUD rules and regulations and thereby improved PHA accountability in their operation of public and assisted housing programs.

The Public Housing Assessment System program and the Section Eight Management Assessment Program both review PHA performance against measured criteria for the Public Housing and Section 8 Housing Choice Voucher programs respectively. The scores that result comprises 50 percent of a PHAs risk assessment score, which field offices use to develop their annual monitoring plan. As such, field offices analyze the individual indicator scores such as resident satisfaction scores, physical and financial condition scores, management operations indicator, and Housing Choice Voucher performance indicators to determine which PHAs should receive monitoring and what type of monitoring is necessary. This analysis led to the monitoring effort mentioned above.

In fiscal years 2004 and 2005, HUD intends to build upon this aggressive monitoring approach by conducting re-reviews of those PHAs who had RIM reviews to ensure that corrective action was effectively implemented in addition to their regular annual monitoring effort. In fiscal year 2005, HUD hopes to have the Comprehensive Compliance and Monitoring Initiative on-line, which will standardize field office review protocols and provide more automated analysis of PHA compliance with the rules and regulations of the Department. Once this protocol is implemented, field offices will conduct approximately 400 annual comprehensive compliance reviews of PHAs to effectively determine overall PHA compliance with the various HUD regulations and legislative initiatives. Performance reviews of PHAs will also be conducted on a risk-basis in order to continue to measure PHA performance.

In fiscal year 2003, HUD assumed possession (administrative receiverships) of two PHAs -- Sanford, FL and the Virgin Islands. Both of these PHAs were found to be in extreme noncompliance with HUD regulations and as such HUD intervened to protect the interests of the

residents and financial position of the authorities. Once HUD had possession, staff was sent in to fully analyze operations and implement remedial action. The PHAs were found teetering on the edge of insolvency and had failed to provide basic housing services such as renting of units and simple maintenance tasks. Between the two PHAs, over 600 unaddressed exigent health and safety violations have been recorded and since corrected. In essence, the dysfunction had permeated all areas of service and only dramatic action through removal of those charged with the proper stewardship of public trust has had a measurable impact on positive change. HUD also continues its aggressive receivership of the Housing Authority of New Orleans, and closely oversees the transition of the partial receivership of the Puerto Rico Housing Authority (PRPHA) back to PRPHA management. The receivership technical assistance funds will be used to procure expert contract services to effectively run dysfunctional PHAs and free HUD staff for their primary oversight responsibilities.

In fiscal years 2004 and 2005, as HUD more fully implements its aggressive monitoring approach and PHAS scores become operational for 2 consecutive years, more PHAs are going to be found in default or to not have met the statutory requirement for substantial improvement, thereby requiring some sort of HUD receivership action. Successful receivership actions involve the use of highly skilled and technically trained individuals who are knowledgeable of the daily operation of a PHA. Only focused and appropriate use of their skill and expertise can effectuate real change.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Freedom to House Initiative	<u>Amount</u>
2003 Appropriation .....	...
2004 Appropriation/Request .....	...
2005 Request	<u>\$5,000</u>
Program Improvements/Offsets	5,000

Proposed Actions

The Department is requesting up to \$5 million for the Freedom to House Demonstration Initiative. This Initiative will establish a demonstration program aimed at assessing the impact of a locally determined public housing program. Freedom to House will build on certain elements of the Moving to Work (MTW) Demonstration by granting PHAs flexibility to manage their resources, but it will remove the requirement to negotiate for protracted periods with HUD in order to seek waivers and exceptions for such flexibility. Freedom to House will remove these barriers and, furthermore, set up a discrete program that can be measured and compared against a control group for effectiveness. Freedom to House will put into place reforms that would allow PHAs to operate in a manner more aligned with market-based realities; measures that both the Millennial Housing Commission and the Harvard Cost Study have supported.

The test group of 50 PHAs will be required to operate under an asset-based management and accounting system. These PHAs will be granted funding fundability and local rent policy discretion. Reporting requirements will be streamlined and a new assessment system will be devised to measure performance based on the financial health and physical soundness of the housing authority's assets.

The Public Housing program is constrained by statutory and regulatory requirements that impede the ability of local entities to craft policies best suited to their local communities. The role of the Federal government should be simplified and more focused to ensure that PHAs are financially solvent, that public housing properties are in good condition, and that PHAs continue to serve substantially the same number of low-income families within their current population. Local communities should be granted the flexibility to devise programs that best suit their local situations.

The Millennial Housing Commission Final Report to Congress in May of 2002 recommended that the public housing program be transformed with a gradual transition to project-based management and accounting. The Commission also recommended continued changes to the rent structure of public and assisted housing to reduce the disincentives to work and marriage. An examination of certain MTW programs shows that housing authorities can manage their projects with no detriment to their programs or the people they serve, based on policies that they can identify themselves. Also, the Congressional mandated Harvard University Public Housing Operating Cost Study Final Report of June 6, 2003, recommended, and HUD supports, the transition to project-based management as is the case with virtually all other multifamily real estate.

The Demonstration Project

HUD proposes a demonstration with 100 participating housing authorities, 50 to be part of a control group and 50 to freely experiment with local approaches in order to achieve better quality, asset-based public housing. The housing authorities would be selected by HUD and represent various size agencies, in various parts of the country, and at various performance levels. All 100 authorities

Public Housing Capital Fund

would be assessed under a newly devised assessment tool described below. During the demonstration period, HUD would conduct training of its staff on property-based management principals to ensure adequate knowledge of current real estate management techniques.

Data from the demonstration authorities will be collected on an on-going basis and a comparative evaluation would be conducted annually and at the end of the demonstration period. The evaluation would establish the advantages and disadvantages of a locally determined public housing program; it would examine the range of programs devised with local flexibility; it would measure the impact that any changes have on residents; and it would also assess any budgetary impact.

The "test" agencies will be able to operate a public housing program with far fewer Federal requirements. The fundamental changes to the Public Housing Program for these agencies include:

- Full fungibility between the Operating and Capital Funds;
- Eliminating Federal mandates on rent policy and allow local rent policy discretion;
- Replacing the PHA Plan with a simple annual report;
- Utilizing an assessment focused on actual results rather than process for property and agency performance;
- Requiring rapid improvement for troubled properties;
- Providing financial incentives for agencies that exhibit exemplary performance in carrying out programs and activities consistent with clearly identified HUD priorities including homeownership and encouraging families to become self sufficient and graduate from public housing; and
- Accelerating transition to asset-based management.

Funding Formulation

Currently, under the Quality Housing and Work Responsibility Act of 1998 (QHWRA), PHA's administering more than 250 units are permitted to use up to 20 percent of their Operating Fund for Capital Fund activities and vice versa. PHAs operating less than 250 units are allowed fungibility between Operating and Capital funds. Under this demonstration, the Department proposes to: (1) extend full fungibility between the Operating and Capital Funds for PHAs, and (2) freeze a PHA's formula share (subject to changes in the current formulas) of the Operating and Capital Funds for the duration of the demonstration. This demonstration will not be implemented to provide a housing authority with more funds than would be provided to them if they were not part of the demonstration.

Issues relating to Section 18 and the Demolition and Disposition of Public Housing will be handled by local HUD asset managers in conjunction with Headquarters. The required \$25 set-aside for resident participation and emergency reserves will be retained during this period.

Set-aside

In addition to the set-aside mentioned above, the Department would continue to allocate funds for emergencies, technical assistance, and staff training. HUD could contract with independent auditors to perform confirmatory reviews and other monitoring services based on the demonstration assessment procedures (see below).

Rent Policy

While PHAs will be forced to exercise greater discipline and accountability with regard to funding, they will be free to adjust rent policy to reflect local preferences and to ensure viable cost management. PHAs will be granted the maximum flexibility to set reasonable rents in their communities. Many Federal admissions and occupancy requirements will be eliminated including occupancy of police officers, community service, pet policy, lease and grievance policies, most rent and income policies, annual reexaminations (as

currently defined - we will still need some resident data to be reported to have something to evaluate), and designated housing. Many of these policies can be addressed by local decisions and priorities or are already covered under existing State and local laws. Statutory definitions of income, deductions, earned income disallowances, minimum rents, hardships, and other aspects of the Federally mandated rent formula will not apply for the "test" PHAs.

Under the demonstration, there will be a requirement that approximately the same number of low-income families within the current PHA population must be assisted. HUD will also streamline the current HUD-50058 form in order to collect very basic information about family characteristics and demographics.

The following items will also be retained:

- Site-based waiting list requirements, which permit PHAs to establish such lists, will be retained consistent with moving toward project-based management.
- The screening and eviction provisions that allow PHAs to access criminal records and to restrict admission of fugitive felons and those on methadone should be retained in order to ensure the safety of public housing residents.

Annual Report

Under the demonstration, the "test" PHAs will be exempted from the requirements of section 511 of QHWRA and, instead, will be required to submit a demonstration plan and annual year-end statements. The demonstration plan would set forth the PHA's intended accomplishments that will be quantified and benchmarks during the demonstration period, and the year-end statement would identify what the PHA has actually accomplished each year. The year-end statement is intended to measure the PHAs performance described under the demonstration plan and allow the asset managers in the field office to work with the PHAs toward their intended goals. The Department envisions that the year-end statement would have to include statutorily required certifications (such as Davis-Bacon and fair housing) and a more specific discussion of HA programs.

Assessment

Under the demonstration, REAC will assess PHAs on the physical condition of their properties to ensure safe and sound housing for residents, and on the financial health of each PHA to ensure that funding is spent for the purposes intended and in a manner consistent with good real estate management practices. HUD will contract with private sector real estate management experts to develop appropriate measurements of performance. A requirement of the test sites will be that all PHA's adopt an asset-based form of management. A newly defined assessment process would apply to both "test" PHAs as well as "control" PHAs so that we will be able to compare the effects of different programs using the same indicators. HUD will report these performance results on an annual basis to Congress and the public.

Physical

The Department would continue to assess the physical condition of the housing stock to determine the extent to which the PHA is providing acceptable basic housing conditions at each of the properties. The Department would also use a more simplified version of the Uniform Physical Condition Standard (UPCS). The PHA will receive physical scores based on a property-by-property basis. Trend analysis will be used to identify patterns within housing authorities to determine their likelihood of being substandard overall.

Financial

The Department would also continue to assess the financial condition and financial management of the overall PHA as well as each property. A financial score will be calculated and issued for each property using standard real estate industry financial indicators. An overall PHA score will also be calculated using indicators based on understood differences in assessing at the property versus entity level. This two-pronged assessment methodology will allow the HUD asset manager to monitor performance and provide input at a discrete property level, and for HUD management to monitor the performance of the entity wide PHA. Some scores may be used for internal management purposes, while others will be the basis for Departmental sanctions based on noncompliance. Accordingly, this approach will allow greater overall flexibility for HUD to monitor its portfolio at both the macro and micro level.

Required annual audit under the Single Audit Act would provide high-level information for the PHA and potentially more specific data on each property.

Resident Survey

The Department will use a survey tool to measure resident satisfaction on a targeted basis. Considering the broad range of services that a PHA could be offering (or not offering) designing a universal survey instrument that would capture useful information is not feasible.

Troubled Agencies

As part of the demonstration, agencies will be freed from overly prescriptive regulations and will move to property-based management. However, agencies and properties must meet performance standards or face sanctions. HUD will use physical and financial scores, audits, and trend analyses to measure performance of public housing properties. Field Office staff will be retrained to become real-estate asset managers and will take an active part in this process.

Field office asset managers will determine appropriate corrective actions for agencies or properties assessed at a substandard level. The magnitude of the deficiency could determine what action HUD would require an agency to take. The Department could take appropriate administrative actions including alternative management, mandatory conversion, receivership, or referral to the Departmental Enforcement Center for sanctions.

Agencies under receivership would be reviewed annually to determine if there was a solid foundation for continued improvement. Conditions for sustained recovery would have to be met before a receivership is relinquished. Such conditions could vary depending on the degree and type of distress of a housing authority.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)**

Working Capital Fund	<u>Amount</u>
2003 Appropriation	\$18,479
2004 Appropriation/Request	10,547
2005 Request	<u>4,500</u>
Program Improvements/Offsets	-6,047

Proposed Actions

The Department is requesting up to \$4.5 million be transferred to Working Capital Fund for the development and maintenance of information technology systems related to public housing.

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)

Section 23 Lease Adjustment	<u>Amount</u>
2003 Appropriation	\$497
2004 Appropriation/Request	497
2005 Request	<u>...</u>
Program Improvements/Offsets	-497

Proposed Actions

The Department is not proposing any funds for Section 23 Lease Adjustments. All Section 23/10(c) public housing units have been converted to the Section 8 Voucher Program.

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Program Offsets
(Dollars in Thousands)

Neighborhood Networks	<u>Amount</u>
2003 Appropriation	\$14,902
2004 Appropriation/Request	14,912
2005 Request	<u>---</u>
Program Improvements/Offsets	-14,912

Proposed Actions

The Department is not proposing any funds for the Neighborhood Networks Initiative Program.

In fiscal year 2003, \$9.6 million was awarded to 60 grantees. The Department also opened the competition to nonprofit organizations with expertise in providing computer and Internet access at the community level in fiscal year 2003. Four nonprofits received funding, the remaining awards were made to 56 PHAs.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Performance Measurement Table**

Program Name: PUBLIC HOUSING CAPITAL FUND					
Program Mission: The Quality Housing and Work Responsibility Act of 1998 authorized the Capital Fund and 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.					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2003 Plan	2003 Actual	2004 Enacted	2005 Plan
Improve the physical quality and management accountability of public and assisted housing.					
The unit weighted average PHAS score increase by 5 percentage points.	Public Housing Assessment System	89.6%	89.6%	94.6%	99.6%
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.	Public Housing Assessment System	76%	75%	81%	86%
The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases by 1 percentage point.	Public Housing Assessment System	90%	90%	91%	92%
Mitigate housing conditions that threaten health.					
The percentage of public housing and private subsidized multifamily units with exigent health and safety violations is reduced from the current 16 percent to 15 percent.	Public Housing Assessment System	16%	16%	16%	15%

Explanation of Indicators

Through PIH's Physical Assessment process, the Agency is able to monitor the reduction in the number of Exigent Health & Safety (EH&S) violations associated with individual properties. PIH uses follow-up inspections, on-line certification and performance based contract administrators to ensure that EH&S violations have been corrected after they have been cited. In most cases, after the property has been cited for an EH&S violation it does not recur in the follow-up inspection. In addition to PIH's extensive monitoring activities in this area, PIH has also embarked on a effort to educate PHAs and owners of properties with assisted units on what items constitute EH&S deficiencies and how to remedy such problems if they exist. PIH provides free 3-day training courses for PHAs and owners of properties with assisted units to assist them in identifying EH&S problems as well as other capital and ordinary maintenance deficiencies that effect the quality of life as well as the safety of tenants. Through the combination of education and more stringent oversight and enforcement, PIH has been able to improve the mitigation of housing conditions that threaten health. In fiscal year 2003, PIH held four training sessions for PHAs and owners of properties with assisted units. Due to the demand for this training by PHAs and owners of properties with assisted units, PIH will conduct 14 training sessions during fiscal year 2004 and a minimum of 14 sessions in fiscal year 2005. The training courses have been and will continue to be instrumental in the effort to reduce the occurrence of EH&S deficiencies in Public Housing and properties with assisted units. In addition to training, PIH will begin in fiscal year 2004 the implementation of an Internet based EH&S monitoring tool that allows Public Housing Authorities and owners of properties with assisted units to certify that cited EH&S violations have been corrected. Once this information has been input, it is accessible to field office staff, contract administrators and PIH staff. This technological enhancement provided greater portfolio oversight and the ability to focus limited resources to those projects that are experiencing the greatest problems. In fiscal years 2004 and 2005, PIH plans to continue enhancing its internal systems and quality assurance programs to provide more accurate information with regard to EH&S violations. The greatest challenge in this area will continue to be the education of PHAs and owners of properties with assisted units so they are able to recognize and correct EH&S deficiencies. REAC will be reviewing EHS certification of 5 percent of RHAs under PHAs in fiscal year 2005.

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Justification of Proposed Changes in Appropriations Language**

The 2005 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

For the Public Housing Capital Fund Program to carry out capital and management activities for public housing agencies, as authorized under section 9 of the United States Housing Act of 1937, as amended (42 U.S.C. 1437g) (the "Act") [\$2,712,255,000] \$2,674,100,000 to remain available until September 30, [2007] 2008: Provided, That notwithstanding any other provision of law or regulation, during fiscal year [2004] 2005, the Secretary may not delegate to any Department official other than the Deputy Secretary and the Assistant Secretary for Public and Indian Housing any authority under paragraph (2) of section 9(j) regarding the extension of the time periods under such section: Provided further, That for purposes of such section 9(j), the term "obligate" means, with respect to amounts, that the amounts are subject to a binding agreement that will result in outlays, immediately or in the future: Provided further, That of the total amount provided under this heading, [up to \$50,000,000 shall be for carrying out activities under section 9(h) of such Act, of which \$13,000,000 shall be for the provision of remediation services to public housing agencies identified as "troubled" under the Section 8 Management Assessment Program and for surveys used to calculate local Fair Market Rents and assess housing conditions in connection with rental assistance under section 8 of the Act: Provided further, That of the total amount provided under this heading, up to \$500,000 shall be for lease adjustments to section 23 projects, and no less than \$10,610,000 shall be transferred to the Working Capital Fund for the development of and modifications to information technology systems which serve programs or activities under "Public and Indian housing": Provided further, That no funds may be used under this heading for the purposes specified in section 9(k) of the United States Housing Act of 1937, as amended: Provided further, That of the total amount provided under this heading, up to \$40,000,000 shall be available for the Secretary of Housing and Urban Development to make grants to public housing agencies for emergency capital needs resulting from emergencies and natural disasters in fiscal year 2004: Provided further, That of the total amount provided under this heading, \$55,000,000 shall be for supportive services, service coordinators and congregate services as authorized by section 34 of the Act and the Native American Housing Assistance and Self-Determination Act of 1996: Provided further, That of the total amount provided under this heading, \$15,000,000 shall be for Neighborhood Networks grants for activities authorized in section 9(d)(1)(E) of the United States Housing Act of 1937, as amended: Provided further, That notwithstanding any other provision of law, amounts made available in the previous proviso shall be awarded to public housing agencies on a competitive basis.] the following amounts shall be available as follows: (1) \$35,000,000 for carrying out activities under section 9(h) of such Act, of which up to \$5,000,000 shall be for remediation services to public housing agencies identified as "troubled" under the Section 8 Management Assessment Program and for surveys used to calculate local Fair Market Rents and assess housing conditions in connection with rental assistance under section 8 of the Act: (2) no less than \$4,500,000 shall be transferred to the Working Capital Fund for development of and modifications to information technology systems which serve programs or activities under "Public and Indian Housing": (3) \$50,000,000 to make grants to public housing agencies for emergency capital needs resulting from emergencies and natural disasters recognized by the Department in fiscal year 2005 in accord with a Department-approved plan: (4) \$54,700,000 for supportive services, service coordinators and congregate services as authorized by section 34 of the Act and the Native American Housing Assistance and Self-Determination Act of 1996: (5) \$30,000,000 for the demolition, relocation, and site remediation for obsolete and distressed public housing units: (6) \$5,000,000 to fund costs associated with a Public Housing Demonstration Initiative: (7) up to \$10,000,000 to support the costs of administrative and judicial receiverships or other intervention activities: Provided further, That no funds may be used under this heading for the purposes specified in section 9(k) of the United States Housing Act of 1937.

[The first proviso under this heading in the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2003, is amended by striking "1998,"1999".]

Explanation of Changes

Deletes language requesting funding for two set-asides: (1) Section 23 Lease Adjustment, and (2) Neighborhood Network Initiative Program.

Adds language requesting funding for three new set-asides: (a) Demolitions grants, (b) Freedom to House Initiative and (c) Administrative Receivership activities.

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Crosswalk of 2003 Availability
(Dollars in Thousands)

<u>Budget Authority</u>	<u>2003 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2003 Resources</u>
Formula Grants	\$2,539,900	-\$16,508	...	...	\$717,610 ^a	\$3,241,002
Emergency/Disaster Reserve	50,000	-325	...	...	...	49,675
Technical Assistance	51,000	-332	...	...	38,821	89,489
Demolition Grants .....	...	...	...	...	...	...
Resident Opportunities and Supportive Services	55,000	-358	...	...	1,303	55,945
Administrative Receivership .....	...	...	...	...	...	...
Freedom To House Initiative .....	...	...	...	...	...	...
Working Capital Fund	18,600	-121	...	...	...	18,479
Section 23 Lease Adjustment	500	-3	...	...	52	549
Neighborhood Networks	<u>15,000</u>	<u>-98</u>	<u>...</u>	<u>...</u>	<u>2,850</u>	<u>17,752</u>
Total	2,730,000	-17,745	...	...	760,636	3,472,891

a/ Includes \$16 million in recaptures and excludes \$7 million in Source Year 1974 contract authority which was cancelled.

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Crosswalk of 2004 Changes
(Dollars in Thousands)

<u>Budget Authority</u>	<u>2004 President's Budget Request</u>	<u>Congressional Appropriations Action on 2004 Request</u>	<u>2004 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2004 Resources</u>
Formula Grants	\$2,470,390 ^a	\$2,541,145	-\$14,993	...	\$530,337	\$3,056,489
Emergency/Disaster Reserve	40,000	40,000	-236	...	40,129	79,893
Technical Assistance	50,000	50,000	-295	...	55,552	105,257
Demolition Grants	30,000	...	...	...	...	...
Resident Opportunities and Supportive Services	40,000 ^b	55,000	-324	...	46,819	101,495
Administrative Receivership .....	...	...	...	...	...	...
Freedom To House Initiative .....	...	...	...	...	...	...
Working Capital Fund	10,610	10,610	-63	...	...	10,547
Section 23 Lease Adjustment .....	...	500	-3	...	52	549
Neighborhood Networks	<u>...</u>	<u>15,000</u>	<u>-88</u>	<u>...</u>	<u>16,741</u>	<u>31,653</u>
Total Changes	2,641,000	2,712,255	-16,002	...	689,630	3,385,883

a/ Includes \$131 million requested in fiscal year 2004 for loan guarantees.

b/ An additional \$15 million was requested in the Public Housing Operating Fund.