

HOUSING  
PROJECT-BASED RENTAL ASSISTANCE  
2006 Summary Statement and Initiatives  
(Dollars in Thousands)

PROJECT-BASED RENTAL ASSISTANCE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2004 Appropriation .....	... <sup>a</sup>	...	...	...	...	...
2005 Appropriation .....	\$5,341,000	...	-\$42,728	\$5,298,272	\$5,298,272	\$3,178,273
2006 Request .....	<u>5,072,100</u>	<u>...</u>	<u>...</u>	<u>5,072,100</u>	<u>5,072,100</u>	<u>5,160,980</u>
Program Improvements/Offsets .....	-268,900	...	+42,728	-226,172	-226,172	+1,982,707

a/ Amounts for fiscal year 2004 are reflected under the Housing Certificate Fund.

**Summary Statement**

The Department is requesting a total of \$5.072 billion for the Project-Based Rental Assistance account. This 2006 request represents an overall decrease of \$226 million from the 2005 enacted level of level of \$5.298 billion. It includes \$4.923 billion for the renewal of expiring project-based Section 8 contracts; \$147.2 million for Contract Administrators; and, \$1.8 million for the Working Capital Fund. In addition, the President's Budget assumes that sufficient funds will be recaptured within this account during fiscal years 2005 and 2006 to fully meet the total funding requirements. Relying on the use of recaptures to augment the program reduces the need for newly appropriated resources.

The net decrease of \$226 million in budget authority from the fiscal year 2005 enacted level is due to several factors. In fiscal year 2006, \$147.2 million is requested for Contract Administrators, which is an increase of \$46.2 million above the fiscal year 2005 enacted amount. In fiscal year 2006, the request for contract renewal funding is \$272.1 million less than the fiscal year 2005 appropriation. Finally, \$1.8 million is requested for the Working Capital Fund, a reduction of \$184 thousand from the fiscal year 2005 level.

**Initiatives**

No new initiatives are proposed for Project-Based Section 8.

HOUSING  
 PROJECT-BASED RENTAL ASSISTANCE  
 Summary of Resources by Program  
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2004 Budget Authority</u>	<u>2003 Carryover Into 2004</u>	<u>2004 Total Resources</u>	<u>2004 Obligations</u>	<u>2005 Budget Authority</u>	<u>2004 Carryover Into 2005</u>	<u>2005 Total Resources</u>	<u>2006 Request</u>
Contract Renewals .....	...	...	...	...	\$5,195,203	...	\$5,195,203	\$4,923,100
Contract Administrators	...	...	...	...	101,085	...	101,085	147,200
Working Capital Fund ..	...	...	...	...	1,984	...	1,984	1,800
Section 8 Amendments ..	...	...	...	...	...	...	...	...
Total Project-Based Rental Assistance ..	...	...	...	...	5,298,272	...	5,298,272	5,072,100

<u>FTE</u>	<u>2004 Actual a/</u>	<u>2005 Estimate</u>	<u>2006 Estimate</u>
Headquarters .....	62	58	55
Field .....	<u>431</u>	<u>394</u>	<u>367</u>
Total .....	493	452	422

a/ The FTE for 2004 Actual are reflected in PIH under Housing Certificate Fund.

HOUSING  
 PROJECT-BASED RENTAL ASSISTANCE  
 Program Offsets  
 (Dollars in Thousands)

<b>Contract Renewals</b>	<u>Amount</u>
2004 Appropriation .....	...
2005 Appropriation .....	\$5,195,203
2006 Request .....	<u>4,923,100</u>
Program Improvements/Offsets .....	-272,103

**Proposed Actions**

The Department proposes \$4.923 billion for project-based Section 8 contract renewals in 2006.

This request funds the renewal of expiring project-based Section 8 rental assistance contracts covering Loan Management, New Construction/Substantial Rehabilitation, Property Disposition, Preservation, Moderate Rehabilitation, and Moderate Rehabilitation SRO. The \$4.923 billion requested, supplemented by recaptures, will renew expiring contracts for an estimated 985,557 units.

It is anticipated that under the Department's Mark-to-Market (M2M) initiative approximately 3,152 projects and 249,993 units will have completed restructuring and/or Sec 8 rent reduction by the end of fiscal year 2006. In many cases this involves writing off a portion of the multifamily project's mortgage debt so that its 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 Tenant-Based Rental Assistance 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 Mark-Up-To-Market initiative, which allows the project owner to adjust rental charges up to the level of comparable multifamily projects in the area. Again, the funding request for Contract Renewals has been adjusted to reflect the impact of this initiative.

**HOUSING  
PROJECT-BASED RENTAL ASSISTANCE  
Program Offsets  
(Dollars in Thousands)**

<b>Contract Administrators</b>	<u><b>Amount</b></u>
2004 Appropriation .....	...
2005 Appropriation .....	\$101,085
2006 Request .....	<u>147,200</u>
Program Improvements/Offsets .....	+46,115

**Proposed Actions**

In fiscal year 2006, the Department proposes funding Contract Administrators with combined resources of \$147.2 million in new budget authority and \$184.8 million in recaptures, for a total program level of \$332 million.

Many of the duties previously performed by HUD staff are now being 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.

The implementation of the Project-Based Contract Administrator (PBCA) initiative for Project-Based Section 8 contracts is already transforming and improving HUD's ability to properly administer and monitor HUD's Project-Based Section 8 rental assistance program to: (1) reduce payment errors; (2) improve the physical condition of units; and (3) meet the objectives of the President's Management Agenda (PMA).

Activity in the program has been increasing as more contracts are transferred to Contract Administrators for oversight activities. As of September 1, 2004, a total of 14,680 Section 8 contracts with 763,729 units are expected to have been transferred to PBCA's under the Contract Administrator Program. There are presently 53 Public Housing Agencies (PHAs) under contract to manage the assigned contracts. It is expected that the remaining 2 geographic areas (Utah and Nebraska) will be awarded in fiscal year 2005. The remaining geographic areas that will be added to the program will increase the total under PBCA's to 14,967 contracts and 774,463 units in fiscal year 2005. Funding for this activity will amount to \$235 million in 2006.

The 2006 proposal includes \$67 million to cover fees associated with the conversion of Annual Contributions Contract (ACCs) contracts currently administered in the FMC to PBCAs. The Non-Performance-based ACCs were transferred to the Financial Management Center (FMC) in Kansas City in fiscal year 1999. Housing's Kansas City Voucher Processing Hub was absorbed into the FMC and all positions with responsibilities for subsidy payments were assigned to the FMC during the HUD 2020 reorganization. The FMC assumed the responsibility for Housing and PIH's subsidy programs under the assumption that all project-based contracts would be assigned to contract administrators and transferred to a budget-based payment procedure.

The Department is also proposing to bring non-Section 8 project-based units under the PBCA program. This will include Rent Supplement and Rental Assistance Program (RAP) contracts; Project Rental Assistance Contracts (PRAC); Project Assistance Contracts (PAC); and, Section 236 contracts. Additional funding of \$30 million is estimated for PBCA fees for these contracts. Funds for the completion of an A-76 study associated with this activity are included under the Salaries and Expenses, HUD request.

Project-Based Rental Assistance

HOUSING  
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Program Offsets  
(Dollars in Thousands)

<b>Working Capital Fund</b>	<b><u>Amount</u></b>
2004 Appropriation .....	...
2005 Appropriation .....	\$1,984
2006 Request .....	<u>1,800</u>
Program Improvements/Offsets .....	-184

**Proposed Actions**

The Department proposes \$1.8 million for the Working Capital Fund transfer in fiscal year 2006.

This funds development of, and modifications to, technology systems that serve or are related to the programs or activities under this account.

HOUSING  
 PROJECT-BASED RENTAL ASSISTANCE  
 Program Offsets  
 (Dollars in Thousands)

<b>Section 8 Amendments</b>	<u>Amount</u>
2004 Appropriation .....	...
2005 Appropriation .....	...
2006 Request .....	<u>...</u>
Program Improvements/Offsets .....	...

**Proposed Actions**

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 renewing expiring contracts for a 1-year term helps to ensure that the problem of inadequately funded contracts is not repeated. However, older long-term contracts that have not reached their termination dates and have not entered the 1-year renewal cycle must be provided amendment funds for the projects to remain financially viable and thus maintain the inventory of affordable rental housing. In fiscal year 2006, recaptures are once again requested for Section 8 Amendment requirements.

**HOUSING  
PROJECT-BASED RENTAL ASSISTANCE  
Performance Measurement Table**

Program Name: <b>PROJECT-BASED RENTAL ASSISTANCE</b>					
Program Mission: Project-Based Rental Assistance is the federal government's primary program to assist families in meeting their housing needs through publicly subsidized multifamily housing units.					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2004 Plan	2004 Actual	2005 Plan	2006 Plan
The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases by 1 percentage point.	PIH/REAC	Conduct new RASS Survey	Survey not conducted	90%	91%
The share of assisted and insured privately owned multifamily properties that meet HUD established physical standards are maintained at no less than 95% percent.	PIH/REAC	No less than 94.7%	95.5%	Maintained at no less than 95%	Maintained at no less than 95%
For households living in assisted and insured privately owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 95 percent.	PIH/REAC	Maintained at no less than 95%	98%	Maintained at no less than 95%	Maintained at no less than 95%
The average number of observed exigent deficiencies per property does not exceed 2.10 for Multifamily.	PIH/REAC	Does not exceed 2.10	1.40	Does not exceed 2.1	Does not exceed 2.1
The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors increases by 0.7 percentage points for assisted multifamily housing.	PIH/REAC	Increase to 92.5%	93.4%	93.2%	93.9%
The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.	PD&R	30% reduction in payment error rates from initial baseline.	71% reduction in overpayment error rates from initial baseline.	50% reduction in payment error rates from initial baseline	Percentage to be determined

**Explanations of Indicators**

**The average satisfaction of assisted renters and public housing tenants with their overall living conditions increases by 1 percentage point.**

Helping American families find safe, decent housing in a suitable living environment has been a central part of HUD's statutory mission for decades. The Department recognizes that homeownership may not be practical for all families, especially those with limited or unstable income. Even with its new and expanded homeownership initiatives, the Administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. The Department is committed to improving the quality of HUD-assisted housing and ensuring that all subsidized families live in units that meet basic quality standards.

Aside from physical improvements, progress toward achieving improvement in the assisted housing stock will be assessed by focusing on the reliability of financial record keeping, the quality and responsiveness of management, and the results experienced by the customers--the residents. The recipients of HUD housing assistance form one of the largest groups of direct customers of HUD. Resident surveys are utilized to assess and track over time resident satisfaction and the Department's success in providing quality service to America's families.

A survey of assisted multifamily renters was not conducted during fiscal year 2004. The satisfaction level in fiscal year 2002 was 87 percent. Some resources were made available late in fiscal year 2003 for a resident survey that will be combined with fiscal year 2004 resources for a new resident survey of FHA-insured properties that will be actually conducted in fiscal year 2005. The enacted resident satisfaction goal for fiscal year 2005 is 90 percent. This target is increased to 91 percent for fiscal year 2006.

The share of assisted and insured privately owned multifamily properties that meet HUD established physical standards are maintained at no less than 95 percent.

Improving the performance of housing intermediaries in meeting HUD's physical standards for public and multifamily housing is a high priority for this administration and was, therefore, included in the President's Management Agenda. Housing agencies are required to inspect and maintain HUD involved housing to ensure compliance with HUD-established standards, or with local codes if they are more stringent. Furthermore, private owners of HUD involved multifamily housing have a contractual obligation to meet physical standards. For fiscal year 2004, 28,958 of 30,319 properties in the Department's multifamily portfolio (95.5 percent) were found to have acceptable physical condition upon inspection, exceeding the target of 94.7 percent. The Department will seek to maintain the percentage of multifamily housing units that meet established physical standards at no less than 95 percent for fiscal years 2005 and 2006.

The Department has several current tools and is developing others to improve the physical quality of public and assisted housing. HUD plans to:

- Continue to monitor privately assisted multifamily housing through Section 8 contract administrators who perform management and occupancy reviews, and through physical inspections on 100 percent of their portfolios.
- Use the Mark-to-Market program to ensure that management of HUD-assisted, privately owned housing meets its operating obligations, resulting in ongoing maintenance of proper physical standards at these properties.
- Use data from the Real Estate Assessment Center (REAC) on the financial soundness of providers assisted multifamily housing, physical quality of stock, and satisfaction of the residents to refer substandard properties to the Departmental Enforcement Center (DEC). The DEC is responsible for working with multifamily properties that have been identified as substandard in one or more areas by REAC. For some noncompliant multifamily development owners, the DEC makes civil referrals to the Department of Justice or criminal referrals to HUD's Inspector General.



Project-Based Rental Assistance

- HUD instituted a system of referrals to the DEC for multifamily properties with REAC scores between 30 and 60. For those properties, HUD will require repairs to be completed within days. If property conditions do not meet HUD requirements, HUD will force compliance or take appropriate enforcement action.

**For households living in assisted and insured privately owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 95 percent.**

REAC is evaluating the financial management of both public housing agencies and privately owned multifamily properties based on generally accepted accounting principles. REAC performs Quality Assurance Reviews (QARs) of the audited financial statements of multifamily property owners submitted by Independent Public Accountants. The QARs provide assurance that the audited statements are accurate and reliable and that audits are conducted in accordance with government and professional standards. Multifamily project managers in the field offices are responsible for resolving all compliance issues or findings identified by REAC. In addition, owners not submitting their audited financial statements in a timely manner are referred to the Departmental Enforcement Center.

For the reporting period in 2004, the share of properties that had no financial compliance findings was 56.2 percent. However, the preponderance of these compliance findings were quickly resolved by HUD's multifamily project managers in the field offices. For fiscal year 2004, multifamily field offices brought 98 percent of the properties they financially reviewed into compliance, exceeding the goal of 95 percent. The fiscal year 2006 goal is to maintain high compliance and successful resolutions so that at least 95 percent of the properties submitting audited financial statement either have no compliance issues or audit findings or have such issues or findings closed (resolved) by September 30, 2006.

**The average number of observed exigent deficiencies per property does not exceed 2.10 for multifamily housing.**

REAC conducts physical inspections that identify exigent health and safety or fire safety deficiencies on HUD involved properties. Exigent health and safety hazards include but are not limited to: (1) air quality, gas leaks; (2) electrical hazards, exposed wires/open panels; (3) water leaks on or near electrical equipment; (4) emergency/fire exits/blocked/unusable fire escapes; (5) blocked egress/ladders; and (6) carbon monoxide hazards. Fire safety hazards include: (1) window security bars preventing egress; and (2) fire extinguishers expired. This indicator measures the reductions in EHS/FS nationwide as HUD applies its physical inspection protocol, Uniform Property Condition Standards (UPCS), to properties inspected. The use of physical inspections by REAC has effected a reduction in exigent health and safety hazards. However, with an aging portfolio and high occupancy rates, such conditions are likely to continue to be observed. The Office of Multifamily Housing's project managers in the field require owners to certify the correction of such deficiencies within 72 hours. This indicator is based on identification of such conditions when inspected.

During fiscal year 2004, the average number of exigent deficiencies observed on new inspections of multifamily properties was 1.4 percent. The goal was exceeded by an average decrease of 0.7 exigent deficiencies per property. The Department's fiscal year 2006 goal is to continue inspections of HUD involved properties and maintain the average number of observed exigent deficiencies per property at or below 2.10 for multifamily housing.

**The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors increases by 0.7 percentage points for assisted multifamily housing.**

Protecting HUD assisted low-income renters from fire hazards is a crucial part of HUD's goal to improve the quality of public and assisted housing. REAC's physical inspections of public and assisted housing include checks of fire safety features including the presence of operational smoke detectors in housing units, common areas and utility areas of buildings. Inspections are conducted independently and are representative of the entire HUD stock.

The Department has been successful in meeting its goal to increase the share of units with functional smoke detection systems in assisted multifamily housing. As of the end of fiscal year 2004, 93.4 percent of assisted multifamily units had functioning smoke detectors and were in buildings with functioning smoke detection systems. Through the use of management tools that track the housing quality of assisted housing, such as REAC inspections, the Department will continue to work with its partners toward meeting this objective. The fiscal year 2006 goal is to continue to improve from fiscal year 2005 levels.

**The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.**

The rental housing assistance programs (public housing, Tenant-Based Rental Assistance, and Project-Based Rental Assistance) constitute HUD's largest appropriated activity, serving over 4.8 million households in fiscal year 2004. Based on studies of fiscal year 2000 program activity, HUD estimated that 60 percent of all subsidized rent calculations were done in error, and that there were approximately \$3.2 billion in gross erroneous payments and \$2 billion in net annual subsidy overpayments attributed to the combination of program administration errors and tenant underreporting of income upon which the subsidy is based.

To address these issues, the Rental Housing Integrity Improvement Project (RHIIP) was established as a Secretarial Initiative in the spring of 2001. The project represents a shift from HUD's previous focus on back-end program error detection and recovery efforts to more proactive front-end program improvements and controls designed to address the root cause of errors and improper payments. The overall purpose of RHIIP is to ensure that the "right benefits go to the right persons"--enabling HUD's limited program funding to correctly serve as many eligible low-income households as possible. Core components of this multi-faceted strategy include more aggressive monitoring and quality control; additional 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.

In fiscal year 2004, HUD surpassed its 30 percent reduction goal for the estimated \$2.013 billion in net annual rental assistance overpayments, achieving a reduction of 71 percent. This goal was established based on fiscal year 2000 estimates of improper payments attributed to both housing administrator errors in subsidy determinations and tenant underreporting of income upon which benefits are based. Furthermore, under the President's Management Agenda, HUD established a goal for a 50 percent reduction in both the frequency of subsidy component and processing errors, and the corresponding portion of the \$2 billion in estimated net annual subsidy overpayments, by 2005. HUD set interim error reduction goals of 15 percent for fiscal year 2003 and 30 percent for fiscal year 2004. A separate assessment of budget impacts is planned for fiscal year 2005. HUD's goal is to better assure that the right benefits go to the right persons. HUD is also expanding its error measurement process to include a third and final component covering the accuracy of assistance billings and payments. Billing error estimates for public housing and voucher programs will be completed for reporting in fiscal year 2005.

In fiscal year 2006, HUD will continue to implement RHIIP to meet performance targets and continue to strengthen HUD's capacity for proper oversight of the rental housing assistance programs. The Department will implement the new authority provided by the Congress in the fiscal year 2004 Appropriations Act, to provide PHAs with another tool to verify tenant incomes with HHS' National Directory of New Hires database. This should improve accuracy and timeliness over the old form letter that had been sent to employers. If successful, HUD intends to remove the mandatory paper form letter requirement to employers, thus providing more privacy and dignity to tenants in the verification of income.

**HOUSING**  
**PROJECT-BASED RENTAL ASSISTANCE**  
**Justification of Proposed Changes in Appropriations Language**

(INCLUDING TRANSFER OF FUNDS)

For activities and assistance for the provision of project-based subsidy contracts under the United States Housing Act of 1937, as amended (42 U.S.C. 1437 et seq.) ("the Act" herein), not otherwise provided for, [\$5,341,000,000] \$5,072,100,000, to remain available until expended. *Provided*, That the amounts made available under this heading are provided as follows:

- (1) [\$5,237,100,000] \$4,923,100,000 for expiring or terminating section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for amendments to section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for contracts entered into pursuant to section 441 of the McKinney-Vento Homeless Assistance Act, for renewal of section 8 contracts for units in projects that are subject to approved plans of action under the Emergency Low Income Housing Preservation Act of 1987 or the Low-Income Housing Preservation and Resident Homeownership Act of 1990, and for administrative and other expenses associated with project-based activities and assistance funded under this paragraph.
- (2) [\$101,900,000] \$147,200,000 for performance-based contract administrators for section 8 project-based assistance.
- (3) [\$2,000,000] \$1,800,000 shall be transferred to the Working Capital Fund[.]: *Provided further, That amounts recaptures under this heading, the heading, 'Annual Contributions for assisted housing,' or the heading, 'Housing Certificate Fund,' for project-based section 8 activities may be used for renewals of or amendments to section 8 project-based subsidy contracts or for performance-based contract administrators, notwithstanding the purposes for which such amounts were appropriated.*

**Explanation of Changes**

Includes language allowing for the use of recaptured funds for contract renewals, Section 8 amendments, and performance-based contract administrators.

Project-Based Rental Assistance

HOUSING  
PROJECT-BASED RENTAL ASSISTANCE  
Crosswalk of 2004 Availability  
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2004 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2004 Resources</u>
Contract Renewals .....	...	...	...	...	...	...
Contract Administrators .....	...	...	...	...	...	...
Working Capital Fund .....	...	...	...	...	...	...
Section 8 Amendments .....	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total .....	...	...	...	...	...	...

Project-Based Rental Assistance

HOUSING  
PROJECT-BASED RENTAL ASSISTANCE  
Crosswalk of 2005 Changes  
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2005 President's Budget Request</u>	<u>Congressional Appropriations Action on 2005 Request</u>	<u>2005 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2005 Resources</u>
Contract Renewals .....	...	\$5,237,100	-\$41,897	...	...	\$5,195,203
Contract Administrators .....	...	101,900	-815	...	...	101,085
Working Capital Fund .....	...	2,000	-16	...	...	1,984
Section 8 Amendments .....	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total Changes .....	...	5,341,000	-42,728	...	...	5,298,272



"PBRA Policy Tables  
for EZBudget.xls"