

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
2008 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>
2006 Appropriation	\$2,463,600	\$330,461 ^a	-\$43,726 ^c	\$2,750,335	\$2,409,160	\$3,161,477
2007 Full-Year CR Estimate.....	2,208,000	334,733 ^b	...	2,542,733	2,208,000	3,082,000
2008 Request	<u>2,024,000</u>	<u>334,733</u>	<u>...</u>	<u>2,358,733</u>	<u>2,024,000</u>	<u>3,076,000</u>
Program Improvements/Offsets	-184,000	...	...	-184,000	-184,000	-6,000

a/ Includes \$16 million in recaptures and excludes \$8 million in expired funds.

b/ Excludes \$6.5 million of funds expired as of October 1, 2006.

c/ Includes \$24.6 million for 2006 governmentwide 1 percent across the aboard rescission and \$19.1 million in rescinded unobligated balances.

Summary Statement

The Public Housing Capital Fund is a comprehensive, formula-driven program that supports public housing capital and management improvement activities. For fiscal year 2008, the Department is requesting \$2.024 billion for the Public Housing Capital Fund. This is \$154 million below the President's fiscal year 2007 request and \$184 million below the fiscal year 2007 Continuing Resolution. Of the total amount requested, \$1.97 billion will assist public housing authorities (PHAs) in carrying out rehabilitation and modernization activities and to cover the annual accrual of capital needs. In addition, \$14.9 million is requested for public housing technical assistance, \$10 million to support the cost of administrative and judicial receiverships or other intervention, \$16.8 million for the development and maintenance of information technology systems, and \$15.3 million for the financial and physical assessment support for public housing.

Approximately 1.2 million families with limited income reside in public housing and are provided with quality affordable housing opportunities. Of this amount, 19 percent are elderly and 21 percent are disabled. It is estimated that the value of this public housing inventory is \$90 billion. The Public Housing Capital Fund account protects and enhances the value of this valuable affordable housing resource. Without this inventory, more families will be at risk of facing possible worst case housing needs and will be further at risk of homelessness. The investments securitized as part of this program are projected to improve the percentage of projects that meet housing quality standards to 86 percent in 2008.

The overall level of funding requested will provide resources to address the estimated \$2 billion annual capital accrual needs of the public housing inventory resulting from the 1998 modernization needs study conducted by the Department. This study also determined that there was a backlog of approximately \$18 billion of unmet need. Since that time, the backlog of capital needs for public housing has been reduced through demolitions of more than 100,000 of the most distressed public housing stock as well as modernization and redevelopment of several hundred thousand units. A mandatory conversion rule has been implemented that will greatly accelerate the demolition of units beyond repair. Today, 85.8 percent of public housing units meet HUD's physical standards, as opposed to 82 percent in 2001. In addition, the outlay estimates for fiscal year 2008 remain relatively consistent with previous years, as funds in the pipeline continue to be expended.

Public Housing Capital Fund

The Department is not requesting funding for capital needs resulting from emergencies and natural disasters in fiscal year 2008. The Department believes, based on recent experience, that it is impossible to predict the need for natural disaster funding and that it creates confusion for the Department to request such funding because other agencies within the Federal Government receive separate appropriations to respond to natural disasters. The Department is also not requesting funding for the Resident Opportunities and Supportive Services (ROSS) program. The fiscal year 2008 goals for this program are to be accomplished with prior funding.

Strategic Goals and Objectives

The Public Housing Capital Fund is essential to achieving the Department's Strategic Goal B: Promote decent, affordable housing, and Strategic Goal C: Strengthen Communities. The Capital Fund was PARTed in 2005 in conjunction with the Operating Fund under the Public Housing assessment. Based on the PART, public housing was determined to have "Results Not Demonstrated." This means that the Operating Fund and Capital Fund programs have not been able to develop OMB-acceptable performance goals or collect data to determine performance. As a result, in formulating the fiscal year 2008 budget, the Department emphasized performance-based budgeting. This charge resulted in the development of efficiency measures and performance indicators related to the Department's strategic goals and annual performance plan. The Office of Management and Budget (OMB) approved two efficiency measures related to the Public Housing Capital Fund. The first measure has a target that the Federal cost of public housing per occupied unit will remain less than the Federal cost of a voucher per occupied unit. The second measure has a target of decreasing the ratio of the Federal outlay cost of public housing to the number of occupied units that are located in physically non-troubled developments.

In 2008, one of the Department's top priorities is to support alternative financing of public housing needs. To promote this budget priority, the Department has established a performance indicator of approving \$50 million of leveraged funds through the Capital Fund Financing Program (CFFP). The CFFP has been very instrumental in expanding PHAs' access to funding by enabling PHAs to borrow private capital for capital improvements.

Initiatives

Upon completion of a new study of national modernization need in 2007, the Department will develop and pilot test a modernization assessment protocol in 2008, which will measure the performance of PHAs in terms of meeting modernization needs as well as provide performance incentives for PHAs that excel in modernizing public housing stock with limited Capital Fund resources.

The Modernization Assessment System (MAS) will be used to estimate the physical modernization needs of public housing by looking at the projected lifecycle of all major building systems (physical structure, envelope, roofs, heating-ventilation, air-conditioning, plumbing, electrical, etc.). MAS will also be used to develop a methodology, based on private sector methodologies for estimating adequate funding for replacement reserves, to estimate the cost of replacement of these systems at the end of their expected lifecycle. In order to achieve this objective, the Department will begin a nationwide property-by-property assessment of the modernization need of all public housing properties at the end of 2008, to be completed in 2009. After the nationwide assessment is complete, the Department will continue to update the assessments through an annual statistically accurate sampling of properties that are newly redeveloped or modernized under MAS.

In 2009, the Department will establish a baseline of modernization need, after which, the Department will establish annual performance plan goals requiring that for each dollar allocated to PHAs under the Capital Fund, there will be a commensurate reduction in modernization need. This goal will contribute to the Department's strategic goal and Presidential Management Objective of promoting decent affordable housing. The Department intends to establish a performance incentive that will reward PHAs that achieve the greatest reduction in modernization need with the lowest investment in Capital Fund dollars, after adjusting for local market conditions. This performance incentive will include a relative increase in Capital funding for PHAs that excel in this area and will be tracked in MAS.

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Using data collected through MAS, the Department will modify the formula for allocating funding to ensure that PHAs do not receive funding in excess of modernization need, with the exception of PHAs that excel in maximizing the modernization accomplished in relation to funding provided. In such instances, the high performing PHAs would continue to receive the funding that would otherwise have been allocated to them, as an additional performance incentive. PHAs receiving such performance incentive funding would be able to use the funding for other Capital Fund eligible initiatives, including developing new public housing as well as engaging in homeownership and other economic development activities. This data will also allow the Department to analyze whether PHAs have sufficient funding to shift to project basing of Capital Funds. In such instances, the Department will require PHAs to shift from centrally administered modernization efforts to project-based modernization efforts that require project specific replacement reserves. The Department will seek authorization to fully exempt replacement reserves from the Section 9(j) required obligation and expenditure deadlines so that they can operate similar to replacement reserves in the private sector.

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Summary of Resources by Program
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2006 Budget Authority</u>	<u>2005 Carryover Into 2006</u>	<u>2006 Total Resources</u>	<u>2006 Obligations</u>	<u>2007 CR Estimate</u>	<u>2006 Carryover Into 2007</u>	<u>2007 Total Resources</u>	<u>2008 Request</u>
Formula Grants	\$2,346,577	\$76,021	\$2,422,598	\$2,234,674	\$2,115,435	\$186,910	\$2,302,345	\$1,966,918
Emergency/Disaster Reserve	-2,260	54,755	52,495	46,085	19,800	1,408	21,208	...
Technical Assistance ..	10,890	66,537	77,427	39,615	10,890	36,580	47,470	14,890
Resident Opportunities and Supportive Services	37,620	92,819	130,439	50,695	23,760	75,591	99,351	...
Administrative Receivership	8,732	3,019	11,751	7,177	7,920	4,631	12,551	10,000
Working Capital Fund ..	10,890	...	10,890	15,890	14,850	...	14,850	16,847
Neighborhood Networks .	7,425	33,475	40,900	15,024	...	25,726	25,726	...
Financial and Physical Assessment Support ...	...	...	...	...	15,345	...	15,345	15,345
Tenant Opportunity ....	...	3,783	3,783	...	...	3,835	3,835	...
Public Housing Amendments .....	...	<u>52</u>	<u>52</u>	<u>...</u>	<u>...</u>	<u>52</u>	<u>52</u>	<u>...</u>
Total	2,419,874	330,461	2,750,335	2,409,160	2,208,000	334,733	2,542,733	2,024,000

NOTE: Carryover into fiscal year 2007 includes \$16 million in recaptures and excludes \$8 million in expired funds.

<u>FTE</u>	<u>2006 Actual</u>	<u>2007 Estimate</u>	<u>2008 Estimate</u>
Headquarters	130	131	93
Field	<u>222</u>	<u>229</u>	<u>151</u>
Total	352	360	244

NOTE: The Department's priority of converting to asset management is responsible for the decrease in FTE for the Public Housing Capital Fund for fiscal year 2008. Implementation of asset management will facilitate future investment in public housing by public and private entities.

Public Housing Capital Fund

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

Formula Grants	<u>Amount</u>
2006 Appropriation	\$2,346,577
2007 Full-Year CR Estimate.....	2,115,435
2008 Request	<u>1,966,918</u>
Program Improvements/Offsets	-148,517

Proposed Actions

The Department proposes \$1.97 billion for Public Housing Capital and Management Activities Formula Grants in fiscal year 2008. This amount will assist PHAs in addressing the estimated annual capital needs of the public housing inventory and reflects important and substantial improved program efforts, including implementing the Modernization Assessment System.

PROGRAM DESCRIPTION AND ACTIVITY

The Quality Housing and Work Responsibility Act (QHWRA) 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 that support resident participation; (6) demolition and replacement; (7) resident relocation; (8) capital expenditures for resident empowerment assistance and self-sufficiency; (9) capital expenditures for security and safety, and (10) homeownership.

In fiscal year 2005, the Department implemented sanctions established in the QHWRA for PHAs that failed to obligate Capital Funds within time limits specified in the Act. The Department reports to Congress quarterly on PHAs' obligations and expenditures. The Department plans to continue monitoring PHAs' obligations and expenditures, and will impose sanctions against PHAs that do not obligate in accordance with statutory deadlines, including withholding grant funds and deducting 1/12th of grant allocations for each month the affected PHAs exceed the statutory deadline. In addition, the Department will recapture funds not expended by the statutory deadline. The quarterly reports indicate that PHAs are obligating and expending their grants in a timely manner:

Snapshot of PHA Obligations and Expenditures

Fiscal Year	Percent Obligated	Percent Disbursed
2001	99.5	99.2
2002	99.4	98.7
2003	98.8	86.7
2004	96.5	71.1
2005	61.9	42.1
2006	27.4	9.6

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The Department will continue to focus on implementing regulations that will replace the current regulation found at 24 CFR Part 968, as well as prepare and distribute new guidance documents and provide training. The updated regulations, guidance materials and training will also lay the foundation for implementing the MAS. 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, and make information on the Capital Fund available to PHAs on a web-based system. The system will also convert most of the paper transactions in the current process to an electronic format. PHAs will benefit significantly from this improvement as they will receive their formula funds more expeditiously, thus, being able to utilize their funds sooner for the betterment of their public housing residents. This system will be consistent with the Department's information technology enterprise architecture that was completed in the fall of 2003.

Pursuant to Sections 9 and 30 of the United States Housing Act of 1937, the Department continues to expand the Capital Fund Financing Program (CFFP), which 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 otherwise would be postponed well into the future. As of June 30, 2006, HUD has approved 71 transactions in which a total of 140 PHAs are participating (some of these transactions include pools of multiple PHAs). The total amount of loan and bond financing approved through June 30, 2006, approximates \$2.96 billion.

Market acceptance of the program has increased competition, and reduced costs, allowing smaller PHAs to participate. HUD has approved bond pools in Alabama, Georgia, South Carolina, and North Carolina, Kentucky and California. HUD anticipates approving bond pools from Tennessee, Michigan and New York in the next several months. Efforts are underway to form bond pools in Louisiana, Texas and Mississippi. Each of the pools are structured to drive down costs and leverage expertise, permitting smaller PHAs to participate.

In addition, the CFFP has evolved such that PHAs are further leveraging their Capital Fund dollars by combining CFFP with Low Income Housing Tax Credits (LIHTC). PHAs are using 4 percent of LIHTCs for modernization and 9 percent of LIHTCs for new development. Depending upon the specifics of the transaction, LIHTCs can provide between 25 percent and 75 percent of the total development costs.

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Program Offsets
(Dollars in Thousands)**

Emergency/Disaster Reserve	<u>Amount</u>
2006 Appropriation	-\$2,260
2007 Full-Year CR Estimate.....	19,800
2008 Request	<u>...</u>
Program Improvements/Offsets	-19,800

Proposed Actions

The Department is not requesting funding for capital needs resulting from emergencies and natural disasters in fiscal year 2008. This change is based on the Department's recent experience that it is impossible to predict the need for emergency and natural disaster funding and that it creates confusion for the Department to request such funding because other agencies within the Federal Government receive separate appropriations to respond to natural disasters. In order to avoid potential redundant appropriations, PHAs should not have a potentially inadequate set-aside in the Capital Fund but rather, should have access to the same funding that other public entities have to receive disaster funding from the Federal Emergency Management Agency under the Robert T. Stafford Relief Act.

In fiscal year 2006, HUD made funds available to eight PHAs to address damage from winds due to Hurricane Wilma on October 24, 2005.

1. Housing Authority of Stuart	\$201,400
2. Housing Authority of Pompano Beach	679,097
3. Miami-Dade Housing Authority	8,464,481
4. Pahokee Housing Authority	2,018,640
5. Boca Raton Housing Authority	74,890
6. Dania Beach Housing Authority	144,077
7. Fort Pierce Housing Authority	2,521,642
8. Deerfield Beach Housing Authority	270,600
Total	14,374,827

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Program Offsets
(Dollars in Thousands)

Technical Assistance	<u>Amount</u>
2006 Appropriation	\$10,890
2007 Full-Year CR Estimate.....	10,890
2008 Request	<u>14,890</u>
Program Improvements/Offsets	+4,000

Proposed Actions

The Department proposes \$14.9 million for Technical Assistance and Intervention funds in fiscal year 2008. 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 and management improvement support. Funds may also be used for the 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; data collection and analysis; training and technical assistance for PHA employees and residents.

Due to the Department's decision to no longer fund the HOPE VI program, funding for HOPE VI technical assistance has been requested within the Capital Fund. HOPE VI technical assistance activities include the submission, collection, and verification of HOPE VI data; conducting risk assessments; ensuring compliance with production goals; HUD headquarters and field office staff travel; and provide training, program support, and capacity development for PHAs. These activities will contribute to the successful completion of HOPE VI projects in the pipeline.

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

Resident Opportunities and Supportive Services	<u>Amount</u>
2006 Appropriation	\$37,620
2007 Full-Year CR Estimate.....	23,760
2008 Request .....	. . .
Program Improvements/Offsets	-23,760

Proposed Actions

The ROSS program, which provides funding to public 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. The Department is not requesting funds for this account in fiscal year 2008. Instead, the Department is streamlining its operations in keeping with the principles of asset management to more efficiently provide a connection between the delivery of housing assistance and other services. This will be accomplished by making modifications to the funds availability process and by utilizing the more than \$75 million in carryover from prior years. The underlying activities typically funded by ROSS are also an eligible activity under the Operating Fund.

For the past 2 years, the Department has rejected 90 percent of Homeownership Supportive Services applications because applicants could not commit to the requirement that they "provide Homeownership Vouchers to eligible families who successfully complete training under the Homeownership Supportive Services grant program." In addition, more than 35 percent of ROSS applications in fiscal year 2005 were rejected because of match issues. As a result, the Department made two significant modifications to the program in its fiscal year 2006 Notice of Funding Availability (NOFA). First, the Department merged the Homeownership Supportive Services grant into the ROSS Family grant and offered two additional points to PHAs that intended to administer a Homeownership program and were willing to commit to the Voucher requirement. Second, the Department expanded the number of eligible services that could be counted for match for ROSS. For example, in the ROSS Elderly grant segment, the Department expanded the eligible match items to allow partnering agencies to provide a number of services, which include direct delivery of activities of daily living, housekeeping, and personal emergency response.

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

Administrative Receivership	<u>Amount</u>
2006 Appropriation	\$8,732
2007 Full-Year CR Estimate.....	7,920
2008 Request	<u>10,000</u>
Program Improvements/Offsets	+2,080

Proposed Actions

The Department is requesting \$10 million to support the costs of administrative and judicial receiverships and other intervention activities. These funds will provide the Department with resources to cover operating and management costs where a court has asserted operational authority over a PHA through a judicial receivership appointment or the Department has taken over operational authority of the PHA through an administrative receivership process. A comprehensive initial assessment of the agency's needs, critical weaknesses and available resources is done. A Receivership Plan is developed and implemented to assist the agency and its community partners to improve the performance of the agency and ensure delivery of appropriate services to the residents. Once an agency is placed into Receivership, the Department provides technical assistance and services which are designed to improve the most crucial deficiencies in the short term and coordinates a wide variety of technical assistance that enables the PHA to sustain long-term recovery of the operational, financial, and physical aspects of low-income housing and Section 8 Housing Choice Voucher program. The average cost of a receivership is estimated at \$2.5 million per PHA based on the Department's recent experience, which includes specialized forensic technical assistance.

Since fiscal year 2005 and in subsequent years, field offices and HUD contractors are implementing an aggressive compliance monitoring effort, focused on the 494 largest PHAs, as well as smaller PHAs. The Office of Public and Indian Housing (PIH) will prioritize Rental Integrity Monitoring (RIM) reviews of all PHAs in two tiers. Tier I RIM reviews represent the PIH National Risk list. This list consists of "priority" PHAs (approximately 494 PHAs), which receive 80 percent of HUD funding. PIH has committed to reviewing these agencies at least once every five years. Tier II RIM reviews will be based on PIH's commitment to review an additional 5 percent (approximately 175) of PHAs that fall outside of the list of "priority" PHAs based on the current PIH Risk Assessment Module. All RIM reviews assess PHA performance and/or compliance with HUD rules and regulations, thereby improving PHA accountability in their operations of public and assisted housing programs. PIH's institutionalization of RIM reviews allows PIH to monitor PHAs' compliance with HUD's policies and ensure that necessary corrective action plans are implemented when there is PHA noncompliance. This will minimize financial risk to the Department.

The Public Housing Assessment System program and the Section 8 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 comprise 50 percent of a PHA's 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 indicators, and Housing Choice Voucher performance indicators to determine which PHAs should receive monitoring and what type of monitoring is necessary. This analysis of PHAS scores led to the monitoring effort mentioned above.

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In fiscal year 2008, HUD will continue to build upon this aggressive monitoring approach by conducting follow-up reviews of those PHAs who had RIM reviews and corrective action plans to ensure that corrective action was effectively implemented in addition to their regular annual monitoring effort. In fiscal year 2007, HUD plans 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.

In fiscal year 2005, HUD assumed possession (administrative receiverships) of the Detroit Housing Commission (MI) and the Sarasota Housing Authority (FL) and continued receivership of the Housing Authority of New Orleans (LA), the Riviera Beach Housing Authority (FL), the Virgin Islands Housing Authority (USVI), the East St. Louis Housing Authority (MO), and the Wellston Housing Authority (MO). The Chester Housing Authority (PA) is under a judicial receivership. Each PHA was found to be in extreme non-compliance with HUD regulations and, as such, HUD intervened to protect the interests of the residents and financial position of the authorities. Once HUD acquired possession, staff was sent to these PHAs' properties to fully analyze operations and implement remedial action. 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. Independent assessments revealed violations of Annual Contributions Contracts, failing Public Housing Assessment System (PHAS) scores, poor housing stock, and operational issues among these agencies. It must be noted that the receivership of the Housing Authority of New Orleans has been complicated due to Hurricane Katrina, which further eroded the housing stock.

In fiscal years 2007 and 2008, as HUD more fully implements its aggressive monitoring approach and PHAS scores become operational for 4 consecutive years, more PHAs are going to be found in default or will not have met the statutory requirement for substantial improvement, thereby requiring some sort of HUD receivership action. Two agencies that HUD is monitoring closely are the Newark Housing Authority (NJ) and the San Francisco Housing Authority (CA). Successful receivership actions involve the use of highly skilled and technically trained individuals who are knowledgeable in the daily operation of a PHA, and whose skill and expertise can effectuate real change. HUD receivership has resulted in significant improvements in the Housing Authority of Sanford (FL). HUD has determined that the conditions leading to a determination of substantial default for this agency no longer exists, and it is once again under the control of the City of Sanford.

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Program Offsets
(Dollars in Thousands)**

Working Capital Fund	<u>Amount</u>
2006 Appropriation	\$10,890
2007 Full-Year CR Estimate.....	14,850
2008 Request	<u>16,847</u>
Program Improvements/Offsets	+1,997

Proposed Actions

Public and Indian Housing (PIH) Information Technology provides a secure, scalable system for HUD staff and their business partners to collect and review information about the public housing inventory managed by HUD. Continuous maintenance and enhancement of these systems is key to the effective administration of the Department's public housing programs. These systems help facilitate real-time updates of program and financial data, and generate reports to proactively manage public housing programs. In previous fiscal years, functions associated with Inventory Management were included in Public and Indian Housing Information Center (PIC) Enhancements and PIC Maintenance. Responding to the Enterprise Architecture (EA) Blueprint, all PIH and Real Estate Assessment Center (REAC) systems have now been reorganized into four functions: Inventory Management, Resource (Subsidy) Allocation, Enterprise Income Verification, and Oversight and Monitoring. Future development efforts will be guided by these key functions, which are based on the Rental Housing Assistance (RHA) Blueprint.

The Department is requesting \$16.8 million, which will be transferred to the Working Capital Fund for the development and maintenance of information technology systems related to public housing. Items and activities to be funded include:

(Dollars In Thousands)

Items/Activities	
Inventory Management Public and Indian Housing Information Center (PIC).....	\$2,598,145
Oversight and Monitoring - VMS/VMAP.....	953,800
Income Verification.....	467,397
Resource Allocation.....	3,354,000
Resident Assessment Sub-System (RASS).....	1,284,131
Customer Assistance Sub-System (CASS).....	113,760
Financial Assessment Sub-System (FASS-PH).....	993,600
Management Assessment Sub-system (MASS).....	743,000
Integrated Assessment Sub-System (NASS).....	1,627,420
Physical Inspection Sub-System (PASS)	2,000,000
Quality Assurance Sub-System (QASS)	168,947
Web Access Security Sub-system (WASS)	652,800
Development Coordination Group (DCG)	<u>1,890,000</u>
Total.....	16,847,000

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Program Offsets
(Dollars in Thousands)

Neighborhood Networks	<u>Amount</u>
2006 Appropriation	\$7,425
2007 Full-Year CR Estimate.....	...
2008 Request	<u>...</u>
Program Improvements/Offsets .....	...

Proposed Actions

As in 2007, the Department is not proposing any funds for the Neighborhood Networks Initiative Program in fiscal year 2008. These program activities can be accomplished through funding in the Capital Fund account without a specific set-aside. Approximately 7,900 residents, through 199 Neighborhood Network grants, access computer training services each month. This does not include other programs offered for youth, adults, and the elderly at Neighborhood Network Centers.

In fiscal year 2005, the Department made available \$23.9 million in the HUD SuperNOFA (Notice of Funding Availability), which included \$10 million in carryover funds from prior years. The Department awarded \$13.9 million of the \$23.9 million in early fiscal year 2006. More than 30 percent of fiscal year 2005 applications were rejected because applicants did not comply with fund matching requirements.

For the fiscal year 2006 NOFA, the Department has made available \$17 million, which includes \$7.5 million in new funds and \$9.5 million in carryover funding from previous years. The Department made one significant change to the Neighborhood Network NOFA in 2006, which was to allow grantees to use grant funds for space. This change also means that space is now an eligible item for funds matching.

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Program Offsets
(Dollars in Thousands)

Financial and Physical Assessment Support	<u>Amount</u>
2006 Appropriation .....	...
2007 Full-Year CR Estimate.....	\$15,345
2008 Request	<u>15,345</u>
Program Improvements/Offsets .....	...

Proposed Actions

Funds are also required to support the ongoing activities of the PIH Real Estate Assessment Center (REAC), which include the inspection, assessment, monitoring and recovery of PHAs. The Department proposes \$15.3 million for Financial and Physical Assessment Support in fiscal year 2008. Financial and Physical Assessment Support is necessary to restore integrity to HUD's housing programs. Its purpose is to provide a timely and accurate assessment of HUD's real estate portfolio using physical, financial, management and resident satisfaction assessments to the Office of PIH. It also verifies the income of public housing residents to ensure that housing subsidies are accurately paid. The assessments performed and data provided renew public confidence in Government by helping make decent, safe and sanitary housing a reality for millions of American families.

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Program Offsets
(Dollars in Thousands)

Tenant Opportunity	<u>Amount</u>
2006 Appropriation
2007 Full-Year CR Estimate.....	...
2008 Request	<u>...</u>
Program Improvements/Offsets

Proposed Actions

No funds are requested for this account in 2008. Carryover amounts of \$3.8 million remain in this account.

Public Housing Capital Fund

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Program Offsets
(Dollars in Thousands)

Public Housing Amendments	<u>Amount</u>
2006 Appropriation
2007 Full-Year CR Estimate.....	...
2008 Request	<u>...</u>
Program Improvements/Offsets

Proposed Actions

No funds are requested for this account in 2008. Carryover amounts of \$52,000 remain in this account.

**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	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
Develop Modernization Assessment System	Office of Capital Improvements	Not applicable	Not applicable	Not applicable	Completion of Modernization Assessment System
Reduce the average number of observed exigent deficiencies per property for 5 or more deficiencies for substandard public housing properties by 10 percent. a/	Real Estate Assessment Center (REAC) Public Housing Physical Assessment System	10% reduction	10% reduction	10% reduction	10% reduction
The share of public housing units that meet HUD-established physical standards will be maintained at 85.1 percent. a/	REAC Public Housing Physical Assessment System	85.1%	85.8%	85.5%	86%
The unit-weighted average Public Housing Assessment Score is maintained at the 2005 level of 85.8 percent.	REAC Public Housing Physical Assessment System	85.8%	85%	85.8%	85.8%
The percent of public housing units under management of troubled housing agencies at the beginning of fiscal year 2008 decreases by 15 percent by the end of the fiscal year.	REAC Public Housing Physical Assessment System	15% reduction	31% reduction	15% reduction	15% reduction
Approve \$50 million of leveraged funds through the Capital Fund Financing Program.	Field Office/ Grantee Reporting	Not applicable	Not applicable	\$50 million	\$50 million

Public Housing Capital Fund

Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
The number of families counseled through the ROSS program in homeownership readiness will increase by 209, and the number of counseled residents who purchased a home will increase by 19 during fiscal year 2008. a/	Field Office/ Grantee Reporting	336 families (10%)	10%	295 families 26 families	209 families 19 families
The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors will be 92.8 percent or greater for public and multifamily housing.	REAC Public Housing Physical Assessment System	92.8%	93.6%	92.8%	92.8%

a/ This goal has been revised.

Explanation of Indicators

Indicator: Develop Modernization Assessment System.

This performance indicator will measure a PHAS' ability to efficiently reduce its modernization need in relation to its funding level. The funding level is less the portion of the funds that is spent on other eligible activities such as transfers to operations, management improvements, and economic development. In 2008, the Department will undertake an initiative to measure the efficiency of reducing modernization need at each PHA in the initial year in order to establish a baseline. In subsequent years, the Department will put in place incentives and penalties designed to increase the efficiency of PHAS in spending their modernization funding in order to increase the overall efficiency of modernization spending by a certain percentage each year.

Indicator: Reduce the number of exigent health and safety deficiencies per property by 10 percent annually among PHAS that are designated as troubled by PHAS and have 5 or more deficiencies per property.

HUD's Real Estate Assessment Center conducts physical inspections that identify Exigent Health and Safety or Fire Safety Deficiencies. Exigent health and safety hazards include: (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. (Smoke detectors are excluded from Exigent Health and Safety or Fire Safety for this measure because they are covered in Indicator C.5.1.). A significant majority of the deficiencies for public housing is represented by three categories: locked emergency/fire exit egress, missing/broken electrical cover plates/switches/outlets, and exposed wires/missing covers.

In prior years, the Department focused on the reductions in Exigent Health and Safety or Fire Safety on an overall basis. From fiscal years 2001 through 2005, the average number of Exigent Health and Safety or Fire Safety deficiencies observed per property was reduced from 2.09 to 1.92 for public housing. Due to scarce monitoring resources, the Department shifted its focus to reduce the defects on the worst properties in fiscal year 2006. The goal for fiscal years 2007 and 2008 is to continue to reduce the average defects per property for substandard public housing properties with a Physical Assessment Subsystem score of less than 60 by 10 percent.

In fiscal year 2006, the Department exceeded its goal, reducing the average defects per property for properties with a PHAS score of less than 60 by 54 percent. The substandard properties totaled 676 at the beginning of fiscal year 2006. For those properties, the exigent health and safety hazard defects per property were 4.55 compared to 9.80 defects per property in previous years. The overall public housing measurement improved 1.92 average deficiencies in fiscal year 2005 to 1.80 deficiencies in fiscal year 2006. This improvement is a result of the Department's long-term outcome goal to improve the quality of the nation's public housing stock.

Indicator: The share of public housing units that meet HUD-established physical standards will be maintained at 85.1 percent.

Through the Department's physical assessment process, PHAS are provided information on the physical condition of every property in their inventory. PHAS are also provided with an analysis of the most common deficiencies identified with a comparison to the prior inspection so that PHAS can monitor their progress in correcting identified deficiencies. HUD's field office staff uses the information from the physical assessment process in their risk management activities and prioritizes its monitoring and technical assistance to those PHAS that present the greatest risk to the program. In addition to the Department's monitoring efforts, HUD has also spent a great deal of time educating PHAS and owners of properties with assisted units on the physical inspection process and how to remedy identified deficiencies. HUD provides free 3-day training courses for PHAS and owners of properties with assisted units to assist them in identifying capital and ordinary maintenance deficiencies, exigent health and safety deficiencies as well as other deficiencies that affect the quality of life as well as the safety of residents. Through the combination of education and oversight that is more stringent and enforcement, HUD has been able to improve the correction and/or abatement of housing conditions that impact the quality of life as well as the safety of residents. HUD will continue to offer training sessions during fiscal years 2007 and 2008 with a minimum of 15 sessions planned. This training has enabled PHAS to focus limited resources on those properties that are experiencing the greatest problems. With the use of technical assistance resources and targeted field office monitoring efforts, the share of public housing units that are operated by troubled agencies that meet HUD-established physical standards will be maintained at 85.1 percent.

Public Housing Capital Fund

During fiscal year 2006, HUD's field office staff focused its limited resources on those PHAs that had been designated as "troubled" through the Public Housing Assessment System (PHAS) in an effort to deal with the issues that caused them to receive failing scores. Through timely intervention and long-term recovery strategies, the Department is focusing its resources on those PHAs that need the assistance. In fiscal year 2006, 90.9 percent of the properties, representing 85.8 percent of public housing units, met or exceeded HUD's physical condition standards. This is a significant improvement from fiscal year 2005, in which 85.1 percent of public housing units met or exceeded HUD's standards. The Department will continue these efforts in fiscal years 2007 and 2008 in order to maintain the percentage of public housing units, which meet the HUD-established physical standards.

Indicator: The unit-weighted average Public Housing Assessment System (PHAS) score is maintained at the 2005 level of 85.8 percent for 2008.

This indicator tracks HUD's progress toward increasing the capability and accountability of PHA partners and increasing the satisfaction of residents. The PHAS provides an indication of the quality of the housing stock and the management conditions with which each public housing resident lives. The fiscal year 2008 goal is to maintain the fiscal year 2005 performance level of 85.8 percent.

By the end of fiscal year 2006, the unit-weighted average PHAS score was 85 percent and, thus, the Department did not meet this goal. The fiscal year 2006 score can be attributed to more focused monitoring of field office certification reviews and other monitoring activities. These efforts better confirmed PHA scores and more accurately represent PHA management operations performance. Unfortunately, it also reduced some scores because of the correction in errors of certified data that naturally brought down the average score. Additionally, the use of full scoring procedures for the physical and financial assessments also contributed to an artificially higher average PHAS score in prior years that is now normalizing. Though both of these efforts seem to show degradation of progress, the exact opposite is true. The enhanced monitoring techniques and scoring procedures more accurately represent PHA performance and was expected to occur as monitoring processes were strengthened. In fact, these efforts will serve to better enforce and improve performance in the years to come by providing an accurate and procedurally reliable baseline of PHA performance.

The fiscal year 2006 score of 85 percent does not reflect a meaningful change in the overall quality of the nation's public housing stock. In addition, the Department is taking several steps that will improve the overall management and unit quality of the nation's PHAs. For example, the Department is focusing more resources on PHAs designated as "troubled" and has been successful at turning around most of these PHAs in 2 to 3 years. HUD's field offices will continue to conduct targeted reviews of PHAs that are not "troubled" but are at risk of becoming substandard or "troubled." Furthermore, the Department's implementation of asset management will provide PHAs with better information to manage their portfolios and allow HUD to focus resources on the few individual public housing properties with the most problems.

Indicator: The percent of public housing units under management of "troubled" housing agencies at the beginning of fiscal year 2008 decreases by 15 percent by the end of the fiscal year.

The Office of Public and Indian Housing and the Real Estate Assessment Center use the PHAS to evaluate the performance of PHAs based on four categories: physical condition, management operations, financial condition, and resident satisfaction. Housing agencies with composite scores below 60 percent or scores below 18 percent in any one component are classified as "substandard" or "troubled". are classified as "troubled" under the PHAS rating. This indicator tracks the share of units managed by "troubled" agencies at the beginning of the fiscal year that successfully return to "standard" status by the end of the fiscal year due to intervention by the Department. Through these efforts, HUD is working to ensure that the country's public housing properties are high quality, kept safe, and managed properly.

The Department successfully met this goal during fiscal year 2006. The number of units managed by "troubled" PHAs was reduced by 31 percent exceeding the 15 percent target. On October 1, 2005, 202 PHAs containing 78,475 low-rent units were assigned to PIH field offices. By September 30, 2006, 24,321 of those units were no longer "troubled" after receiving assistance from the PIH field offices and the Recovery Prevention Corps. Data for this indicator are from the Troubled Agencies Portfolio, a database that captures the date a PHA is designated troubled based on PHAS scores. The "troubled" list is issued monthly and reports the status of "troubled" PHAs. PHAs will remain on the list until they receive a passing PHAS score.

Public Housing Capital Fund

Indicator: Approve \$50 million of leveraged funds through the Capital Fund Financing Program (CFFP) in order to leverage private sector resources, so that valuable but limited public sector resources can be maximized.

The CFFP is an appropriations-based financing program that makes financing available to PHAs. The agencies borrow funds from private sector lenders, pledge their capital funds subject to the availability of appropriations, and then repay the financing as they receive their capital funds. Proceeds from CFFP transactions are used for modernization and development of public housing. This goal measures the dollar amount of Capital Fund Financing program transactions approved by the Office of Capital Improvements. It supports HUD's strategic goals by leveraging private sector resources, thereby maximizing valuable but limited public sector resources, in order to develop decent affordable housing. In fiscal year 2008, the Office of Capital Improvements will approve \$50 million of leveraged funds through the CFFP.

Indicator: The Number of families counseled through the ROSS program in homeownership readiness will increase by 209, and the number of counseled residents who purchased homes will increase by 19 during fiscal year 2008.

The Resident Opportunity and Self Sufficiency program provides funds to PHAs, tribes/tribally designated housing entities, and qualified non-profit organizations to deliver homeownership training, counseling, and other supportive services to residents of public and Indian housing. In fiscal year 2006, the Department exceeded its goal by increasing the percent of public housing residents who received homeownership counseling by 88 percent from the fiscal year 2005 established baseline of 3,363 residents who received homeownership counseling. A 10 percent goal meant that an additional 336 residents should receive homeownership counseling during fiscal year 2006. The 88 percent increase in fiscal year 2006 means that 2,950 additional residents received homeownership counseling. This success will help the Department further its outcome goal of increasing homeownership opportunities.

Indicator: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors will be 92.8 percent or greater for public housing.

This indicator measures the estimated share of units that are protected by a fully functional smoke detection system, defined as smoke detectors that are observed to be both present and operative in the unit as well as the building in which the unit is located. The National Fire Protection Association reports that although smoke alarms cut the chances of dying in a house fire by 40 to 50 percent, about one-quarter of U.S. households lack working smoke alarms. The Real Estate Assessment Center'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. The Department exceeded its goal for fiscal year 2006 with 93.6 percent of public housing units having functioning smoke detectors in buildings with functioning smoke detection systems.

Public Housing Capital Fund

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

The 2008 proposed President's budget language is listed and explained below.

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'') \$2,024,000,000 to remain available until September 30, 2011: Provided, That notwithstanding any other provision of law or regulation, during fiscal year 2008, 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 \$14,890,000 shall be for carrying out activities under section 9(h) of such Act; \$16,847,000 shall be transferred to the Working Capital Fund; \$10,000,000 is to support the costs of administrative and judicial receiverships; and up to \$15,345,000 shall be to support the ongoing Public Housing Financial and Physical Assessment activities of the Real Estate Assessment Center (REAC): Provided further, That no funds may be used under this heading for the purposes specified in section 9(k) of the Act.

Explanation of Changes

Removes language related to emergencies and natural disasters and the ROSS program.

Public Housing Capital Fund

PUBLIC AND INDIAN HOUSING
 PUBLIC HOUSING CAPITAL FUND
 Crosswalk of 2006 Availability
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2006 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2006 Resources</u>
Formula Grants	\$2,370,280	-\$23,703	...	...	\$76,021	\$2,422,598
Emergency/Disaster Reserve	17,000	-19,260	...	...	54,755	52,495
Technical Assistance	11,000	-110	...	...	66,537	77,427
Resident Opportunities and Supportive Services	38,000	-380	...	...	92,819	130,439
Administrative Receivership	8,820	-88	...	...	3,019	11,751
Working Capital Fund	11,000	-110	...	...	...	10,890
Neighborhood Networks	7,500	-75	...	...	33,475	40,900
Financial and Physical Assessment Support .....	...	...	...	...	...	...
Tenant Opportunity .....	...	...	...	...	3,783	3,783
Public Housing Amendments .....	...	...	...	...	<u>52</u>	<u>52</u>
Total	2,463,600	-43,726	...	...	330,461	2,750,335

Public Housing Capital Fund

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Crosswalk of 2007 Changes
(Dollars in Thousands)

<u>Budget Activity</u>	2007	2007			<u>Carryover</u>	<u>Total 2007 Resources</u>
	<u>President's Budget Request</u>	<u>FY 2007 CR Estimate</u>	<u>Supplemental/ Rescission</u>	<u>Reprogrammings</u>		
Formula Grants	\$2,085,435	\$2,115,435	...	...	\$186,910	\$2,302,345
Emergency/Disaster Reserve	19,800	19,800	...	...	1,408	21,208
Technical Assistance	10,890	10,890	...	...	36,580	47,470
Resident Opportunities and Supportive Services	23,760	23,760	...	...	75,591	99,351
Administrative Receivership	7,920	7,920	...	...	4,631	12,551
Working Capital Fund	14,850	14,850	...	...	...	14,850
Neighborhood Networks .....	...	...	...	...	25,726	25,726
Financial and Physical Assessment Support	15,345	15,345	...	...	...	15,345
Tenant Opportunity .....	...	...	...	...	3,835	3,835
Public Housing Amendments .....	...	...	...	...	<u>52</u>	<u>52</u>
Total	2,178,000	2,208,000	...	...	334,733	2,542,733