

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING OPERATING FUND
2008 Summary Statement and Initiatives
(Dollars in Thousands)

PUBLIC HOUSING OPERATING FUND	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2006 Appropriation	\$3,600,000	\$1,223	-\$36,000	\$3,565,223	\$3,563,898	\$3,496,043
2007 Full-Year CR Estimate.....	3,564,000	1,223 ^a	...	3,565,223	3,565,223	3,614,280
2008 Request	<u>4,000,000</u>	...	...	<u>4,000,000</u>	<u>4,000,000</u>	<u>3,891,474</u>
Program Improvements/Offsets	+436,000	-1,223	...	+434,777	+434,777	+277,194

a/ Excludes \$102 thousand of unobligated funds that expired October 1, 2006.

Summary Statement

The Budget proposes an appropriation of \$4 billion for the Public Housing Operating Fund for fiscal year 2008. This represents the highest level of funding in the history of the Operating Fund program. These funds will enable approximately 3,160 Public Housing Agencies (PHAs) to provide decent, safe, and affordable housing for lower-income families. The 2008 request is \$436 million higher than the fiscal year 2007 request of \$3.564 billion as well as the fiscal year 2007 Continuing Resolution. This request includes a \$5.94 million set-aside for asset management transition costs which will be used to support the transition to the asset based management concept.

Initiatives

The Department began funding PHAs during fiscal year 2007 under the new operating subsidy formula. In 2008, the Department will implement the second year of the new Operating Fund formula, which requires public housing's conversion to asset management. The "Public Housing Cost Study" (Cost Study) recommended a transition to asset management to further PHAs' focus and accountability for each individual public housing property as a valuable low rent real estate asset. Asset management includes adoption of project-based accounting and project-based management to align PHA management and accounting practices consistent with private industry. Based upon their fiscal year cycle, PHAs will begin implementation of project based accounting in fiscal year 2007 and are required to fully implement asset management by fiscal year 2011.

A Congressional Conference Report accompanying the fiscal year 2000 Appropriation Act directed HUD to contract with Harvard University Graduate School of Design (GSD). The fiscal year 2004 Consolidated Appropriations Act (P.L. 108-99), approved January 23, 2004, required HUD to undertake negotiated rulemaking to make changes to the formula governing the Public Housing Operating Fund. In response to this statutory language, HUD established a Negotiated Rulemaking Committee consisting of Public Housing Agencies, tenant organizations, other interests/policy groups, and representatives of HUD. The Committee held four meetings and reached agreement on a new Operating Fund formula and asset management, which implements the recommendations made by the Harvard Cost Study. The Operating Fund Rule adopted the recommendations of the Negotiated Rulemaking Committee, except for the following two items: (1) no funding was provided for the \$2 Per Unit Month public entity fee, and (2) the formula retained the current Interim Rule inflation factor.

Public Housing Operating Fund

Energy Performance Contracting

The Department spends an estimated \$4 billion on energy, more than 10 percent of its budget; either directly in the form of public housing operating subsidies or indirectly through utility allowances and Section 8 contracts in assisted multifamily housing. In 2004, the Department spent \$1.3 billion for PHA-paid utilities, which represented 22 percent of total operating expenses. Cost savings in energy would result in revenue for other important capital investments or rental assistance needs. For this reason, the Department has embraced the President's National Energy Policy.

Under Section 154 of the Energy Policy Act of 2005, the Department must develop an "integrated Energy Strategy," to monitor the energy usage of PHAs. The Department is committed to taking steps to improve the energy efficiency of its public and Indian housing stock, particularly as it helps PHAs transition to Asset Management. The Department has placed emphasis on its Energy Action Plan by encouraging PHAs to actively participate in undertaking cost effective energy conservation measures. Likewise, the Department has developed a strategy that will assist PHAs in this endeavor. Planned Actions for the next 2 years include promoting energy efficiency nationwide; building HOPE VI developments to a high level of efficiency; improving tracking and monitoring of energy efficiency in public housing; and streamlining energy performance contracting in public housing.

During fiscal years 2007 and 2008, the Department will obtain more precise data on energy performance activities. Many of the planned reporting activities will be performed through contractor surveys with the support of the Office of Field Operations, the Office of Public Housing and Voucher Programs and the Office of Public Housing Investments. Contractors will collect and analyze data related to procurement plans and audits and analyze HOPE VI and energy performance contract data. Local field offices, as part of their current approval responsibilities, will establish procedures to collect, track and report on energy savings resulting from energy performance contracts. Reliance on contractor support is necessary to address emergent field office workload including the significant undertaking to transition PHAs to asset management.

STRATEGIC GOALS AND OBJECTIVES

The Operating Fund is essential to achieving the Department's Strategic Goal B: Promote decent, affordable housing, and Strategic Goal E: Embrace high standards of ethics, management, and accountability. The Public Housing Operating Fund was PARTed in 2005 in conjunction with the Capital 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, the Department is in the process of refining its strategic goals and objectives to better reflect performance-based budgeting. One of the Department's priorities for fiscal year 2008 is the transition to asset management, which will revamp business processes and provide accurate data on the costs of running public housing by development. Linking to this priority, the Department has included performance indicators that 10 percent of PHAs' substantially transition to asset management and 50 percent to asset-based accounting by fiscal year 2008.

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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>
Operating Subsidy	\$3,564,000	\$1,223	\$3,565,223	\$3,563,898	\$3,564,000	\$1,223	\$3,565,223	\$3,994,060
Asset Management								
Transition Fund .....	...	...	...	...	...	...	...	5,940
Housing								
Self-Sufficiency Award	...	...	...	...	...	...	...	...
Total	3,564,000	1,223	3,565,223	3,563,898	3,564,000	1,223	3,565,223	4,000,000

<u>FTE</u>	<u>2006 Actual</u>	<u>2007 Estimate</u>	<u>2008 Estimate</u>
Headquarters	59	59	183
Field	74	77	376
Total	133	136	559

NOTE: The conversion to asset management will increase the FTE levels for the Public Housing Operating Fund in fiscal year 2008. Asset management will change the role of many Headquarters staff and will refocus field responsibilities. The shift of resources will support the training of HUD staff and management on the new concepts and procedures related to asset management. Implementation of asset management will lead to better management and oversight of public housing by providing greater information about the operating costs and performance levels of each public housing project.

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

Operating Subsidy	<u>Amount</u>
2006 Appropriation	\$3,564,000
2007 Full-Year CR Estimate.....	3,564,000
2008 Request	<u>3,994,060</u>
Program Improvements/Offsets	+430,060

Proposed Actions

The Department proposes to use \$3.99 billion for operating subsidies for PHAs in fiscal year 2008, the second year of implementation for the new Operating Fund formula. Operating subsidies are provided to PHAs to assist in funding the operating and maintenance expenses, including payments resulting from multiyear bond financing deals, of their owned dwellings in accordance with Section 9 of the United States Housing Act of 1937, as amended.

In 2008, PHAs will continue the transition to asset management and convert to project-based accounting and project-based management. PHAs will be funded via individual asset management projects for the first time in 2008, instead of being funded at a PHAwide level. The intent of this funding approach is to make the relationship to funding and property management outcomes more transparent. Assessments of PHAs' performance using asset management will begin under the Public Housing Assessment System in 2008 based on PHAs' fiscal year cycles.

HUD will also provide a 2 percent holdback of the appropriated amount (final rule specifies the Operating Fund program may hold-back up to 2 percent) for appeals, but anticipates successful appeals of 1 percent. The 2008 Budget request reflects the requirements of operating subsidies for fiscal year 2008 only. No portion of the request will be used for prior fiscal year shortfalls.

Recognizing that the implementation of asset management by Public Housing Agencies (PHAs) is a complex process, HUD has provided guidance and assistance to PHAs through a variety of methods. A number of timely Notices, both informational and program-specific, have been provided to assist PHAs in the steps needed to complete the transition to asset management. The Assistant Secretary for PIH has gone on-site to a number of PHAs to discuss their specific issues and challenges in the transition and has met numerous times with representatives of industry groups to solicit their input and discuss their member's issues. Additionally, training on various components of asset management has been provided to HUD staff members through web-casts as well as on-site sessions to ensure that they are prepared to assist PHAs in their jurisdictions. HUD staff has participated in industry-sponsored training sessions to provide information and obtain feedback from PHAs that are implementing asset management. In late 2006, a training session was held for HUD staff, which featured a number of PHAs that have completed the transition to asset management. This session provided a forum for PHAs to convey the challenges they faced and the lessons learned regarding asset management. HUD will continue to issue timely information and to provide training to both PHAs and HUD staff to ensure that the transition to asset management is successful.

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The table below reflects the funding for the primary elements comprising the proposed fiscal year 2008 Budget request.

<u>Description</u>	ACTUAL <u>2006</u>	ESTIMATE <u>2007</u>	ESTIMATE <u>2008</u>
	(Dollars in Millions)		
Non-Utility Expense Level (PEL)	\$4,155	\$4,391	\$4,498
Utilities	1,637	1,659	1,687
Less: Tenant Income	-2,406	-2,258	-2,236
Public Housing Operating Fund Base	3,386	3,792	3,949
Alternative Subsidy Projects	151	0	0
MTW Block Grant, PHA's not in Base	466	539	552
Public Housing Add-ons			
Non-Dwelling Units	8	0	0
Elderly/Disabled Coordinators	15	13	14
Unit Reconfigurations	22	0	0
Transition funding for Demolitions (Phase Down)	37	0	0
Resident Participation	24	25	26
Costs Attributable to Deprogrammed Units	5	0	0
Energy-Add On for Loan Amortization	14	17	17
Long-Term Vacant Units	3	0	0
Other Approved	1	0	0
Payments in Lieu of Taxes	0	95	99
Cost of Independent Audit	16	17	18
Asset Management Fee	0	43	42
Information Technology Fee	0	26	26
Asset Repositioning Fee	0	43	45

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<u>Description</u>	<u>ACTUAL</u> <u>2006</u>	<u>ESTIMATE</u> <u>2007</u>	<u>ESTIMATE</u> <u>2008</u>
		(Dollars in Millions)	
Mutual Help and Turnkey Units	1	1	1
Estimated Appeals	0	18	40
Less estimated savings from:			
Transition	0	- 40	157
Subtotal: Operating Fund Base	4,149	4,589	4,986
Less Rescission	-36	0	0
Unfunded Proration	-549	-1,030	-992
Total Funded	3,564	3,559	3,994
Set-asides Within the Operating Fund:			
Asset Based Management Transition Fund	0	0	6
Voluntary Graduation Bonus	0	0	0
Total Budget Year Enacted/Request:	3,564	3,564	4,000
Carryover	0	0	0
Total Resources Available	\$3,564	\$3,564	\$4,000
Proration Percentage	85.9%	77.5%	80.2%

*Actuals are based on HUD-52723 data as of December 15, 2006.

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Specific factors affecting the fiscal year 2008 operating subsidy estimates are:

ASSUMPTIONS AND QUALIFICATIONS

The Public Housing Operating Fund subsidizes PHAs partially on the status of a PHA's units (i.e., eligible unit months).

The following table shows the number of units in months upon which subsidy will be paid.

UNITS MONTHS	2006	2007	2008
Unit Months Available/Eligible Unit Months*	13,836,470	13,781,389	13,643,575
Percent Change		-0.4%	-0.6%

*Unit Months Available are used for fiscal year 2006 and Eligible Unit Months are used for fiscal years 2007 and 2008.

The Public Housing Operating Fund uses two inflation factors. These inflation factors use the latest OMB economic assumptions and are shown below.

FACTOR	2006	2007	2008
Non-Utility Inflation Factor	1.0356	1.0358	1.0348
Utility Inflation Factor		1.0301	1.0267

1. **Economic Assumptions.** The fiscal year 2008 estimate incorporates the most recent economic assumptions about inflation, and presumes a decrease in non-utility costs and a decrease in utility rates from the 2007 estimate. The calculation of individual PHA subsidy formula requirements includes the use of an inflation factor, which is a weighted average percentage increase in local government employee compensation and non-wage expenses. Under the new Operating Fund formula, tenant income is frozen at the fiscal year 2004 level for a 3-year period beginning with the fiscal year 2007 formula. Hence, PHAs are permitted to retain 100 percent of the difference between the rent collected in fiscal year 2004 versus the rents actually collected in fiscal years 2007, 2008, and 2009. As a result of this provision, a new baseline of tenant income used in the formula is decreased by \$22 million in fiscal year 2008. The decreased tenant income is attributed to the calculation of tenant income under the new Final Rule. Tenant income is calculated using the 2004 PHA financial data schedule (FDS) submissions divided by the unit months leased. This calculation imputes tenant rent for vacant units. The new formula provides for funding of a limited number of vacant units. Both fiscal years 2006 and 2007 tenant income assumes a certain level of units under management. It is estimated that, for fiscal years 2007 and 2008, there will be about a 1 percent total decrease in the number of units under management as a result of demolitions/dispositions.
2. **Alternative Subsidy Projects.** The new Operating Fund formula regulation incorporates four Public Housing Agencies (PHAs) formerly considered under a special provision in the Interim Rule. These PHAs included Virgin Islands, Puerto Rico, Guam, and Alaska.
3. **Public Housing Add-ons.** The fiscal years 2007 and 2008 estimate reflects additional formula expenses that are not included in the Public Housing Operating Fund Base. These eligible formula expenses are referred to as "add-ons" and as a general category of the formula are not new. Some of the specific items have changed to be consistent with the structure of the Cost Study model and the recommendations of the Negotiated Rulemaking Committee. As a result, certain add-ons in the 2006 formula model, such as FICA and Unemployment, are now included in the 2007 and 2008 Operating Fund Base. All add-ons under the new formula are detailed below.
 - a. **Non-Dwelling Units.** For fiscal year 2007, these units are incorporated into the Public Housing Operating Fund Base in a category of Eligible Unit Months referred to as approved vacancies and special use units. Operating subsidies for special

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use units removed from the dwelling rental inventory are generally used to support resident economic self-sufficiency or resident services.

- b. Elderly/Disabled Service Coordinators. The estimate reflects funding for the annual renewal of the public housing elderly and/or disabled service coordinators.
- c. Unit Reconfigurations. After fiscal year 2006, the new formula regulation for fiscal years 2007 and 2008 incorporates these costs into the Public Housing Operating Fund Base Project Expense Level (PEL).
- d. Transition Funding for Demolition (Phase-Down). After fiscal year 2006, the new formula regulation in fiscal year 2007 and 2008 incorporates phase-down transition costs into the add-on entitled Asset Repositioning Fee.
- e. Resident Participation. PHAs are eligible to receive \$25 per occupied unit on an annual basis for this function. These funds will be used to support existing as well as new initiatives associated with resident participation.
- f. Cost attributable to deprogrammed units. After fiscal year 2006, the new formula regulation in fiscal years 2007 and 2008 incorporates deprogrammed unit costs into the add-on entitled Asset Repositioning Fee.
- g. Energy Add-On for Loan Amortization. As an incentive toward energy conservation, this add-on covers the loan principal and interest payments of the energy conservation measures incurred by a PHA in accordance with regulations.
- h. Long-Term Vacant Units. This add-on was discontinued as an eligible unit month under the new regulation after fiscal year 2005. However, PHAs may receive funding for long-term vacant units based on an appeal to HUD for vacant units due to changing market conditions.
- i. Other Approved. This item reflects adjustments as a result of changes in Federal law or revision in HUD or other Federal regulations.
- j. Payments in Lieu of Taxes (PILOT). Costs for PILOT were recognized in the Public Housing Non-Utility Expense Level (AEL 2006) for fiscal year 2006. PILOT costs are considered as an add-on under the new Operating Fund formula.
- k. Cost of Independent Audit. PHAs are eligible for funding for the expense of auditing their Operating Fund program in accordance with Generally Accepted Accounting Principles (GAAP). These costs are an add-on under the new rule. Audit cost were included in the Non-Utility Expense Level for fiscal year 2006.
- l. Asset Management Fee.* PHAs with at least 250 units are eligible to receive a \$4 Per Unit Month (PUM) asset management fee. PHAs with less than 250 units that elect to transition to project-based management are eligible for a \$2 PUM asset management fee.
- m. Asset Repositioning Fee.* PHAs that transition public housing units out of their inventory are eligible for an asset repositioning fee. This fee supplements costs associated with administration and management of demolition or disposition, tenant relocation, and minimum protection and services associated with such efforts.
- n. Information Technology (IT) Fee.* PHAs are eligible for a \$2 Per Unit Month funding for costs attributable to information technology. This fee supplements higher information technology expenses associated with the management of public housing.
- o. Transition saving/cost. These savings and costs result from the new regulation transition funding that provides for a gradual increased formula share for PHAs that gain funding and gradual decreases for PHAs that receive lower formula share relative to the interim formula.

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p. Estimated Appeals.* The new Operating Fund rule provides that HUD will hold-back up to two percent of the appropriation to address appeals. The Department estimates actual appeals of 0.5 percent of appropriated funds in 2007 and 1 percent in 2008.

*Reflects new add-ons beginning in fiscal year 2007 under the new Operating Fund formula.

PHA REVENUE AND EXPENDITURE PATTERN

Based on fiscal year 2005 and 2006 historical data, the table below represents an estimated pattern of PHAs expenditures from revenue sources such as rental income, operating subsidy, investment, and other income. Such expenditures may vary substantially for individual authorities.

Public Housing Authorities' Operating Revenues
(Dollars in Millions)

<u>Category</u>	<u>Annual Revenue</u>	<u>Percent of Total</u>
Operating Subsidy	\$4,000	58
Dwelling Rent	2,522	37
Interest Income	114	2
Other Income	<u>187</u>	<u>3</u>
Total Revenue	6,823	100

Public Housing Authorities' Expenditures (Based on Current Formula Requirements)
(Dollars in Millions)

<u>Category</u>	<u>Annual Expenditures</u>	<u>Percent of Total</u>
Utilities	\$1,602	23
Administration	1,999	29
General Expenses	565	8
Maintenance	2,286	34
Tenant Services	189	3
Protective services	182	3
Capital Expenditures	0	0
Operating Reserves	<u>0</u>	<u>0</u>
Total Operating Expenses	6,823	100

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Definitions:

Operating Subsidies. Includes operating funds received during the year.

Dwelling Rental. Includes tenant rent.

Investment Income. Includes income from investments.

Other Income. Includes income from other sources, such as, rental income from non-dwelling space or facility, income from vending machines, etc.

Utilities. Includes water, electricity, gas, fuel, and related labor expenses.

Administration. Includes administrative salaries, legal expenses, staff training, travel, accounting fees, auditing fees, sundry and outside management costs.

General Operating Expenses. Includes insurances, payments made to local governments in lieu of taxes, terminal leave payments, employees benefit contributions, collection losses, interest on administrative and sundry notes, and other general expenses.

Ordinary Maintenance and Operations. Consists of expenses for labor, materials, contracts and garbage fees associated with the day-to-day operation of the PHA.

Tenant Services/Resident Participation Activities. Covers salaries of PHA staff that provide tenant services, as well as recreation, publication, contract costs, training, and other expenses.

Protective Services. Includes expenses for labor, materials, and contract costs.

Capital Expenditures. Includes extraordinary maintenance, casualty losses and property betterments (e.g. roofs and furnaces).

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Program Offsets
(Dollars in Thousands)

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

Proposed Actions

The Department is not requesting any funding for this program for fiscal year 2008. To ensure that the maximum amount of funds appropriated under the Operating Fund program are available for basic maintenance and repair, the Department is limiting its requests for set-aside programs.

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PUBLIC HOUSING OPERATING FUND
Program Offsets
(Dollars in Thousands)**

Asset Management Transition Fund	<u>Amount</u>
2006 Appropriation .....	...
2007 Full-Year CR Estimate.....	...
2008 Request	<u>\$5,940</u>
Program Improvements/Offsets	+5,940

Proposed Actions

The Department is requesting \$5.94 million in fiscal year 2008 to provide technical assistance to PHAs related to transitioning to asset management in public housing, including training and system development. Beginning in 2007 and continuing in 2008, all PHAs of 250 or more units are required to convert to asset management. This conversion will reshape almost all business processes associated with the public housing program. The requested funding will be used to provide technical assistance and training to PHAs to ensure they are following sound financial management practices in the operation of public housing projects, particularly in the areas of budgeting, financial reporting, and property/liability insurance, and will also help to modify HUD's tracking and monitoring systems.

In this second year of conversion to asset management, PHAs will not only be required to prepare project-level financial statements but also abide by rules regarding reasonable management fees. Additionally, in 2008, the Department plans to implement changes to the Public Housing Assessment System (PHAS) to better reflect the shift to a project-based management model. Significant changes are also planned also occur in the field office oversight structure to support the conversion to asset management.

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

Program Name: OPERATING FUND					
Program Mission: The Public Housing Operating Fund provides operating subsidy payments to approximately 3,160 PHAs with a total of over 1.2 million units under management. Operating subsidies are provided to PHAs to assist in funding the operating and maintenance expenses of their owned or managed dwellings.					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
Asset-based accounting will be implemented in 50 percent of all PHAs by fiscal year 2008.	Real Estate Assessment Center reporting	Not applicable	Not applicable	20%	50%
By 2008, 10 percent of all PHAs will have substantially converted to asset management.	Real Estate Assessment Center reporting	Not applicable	Not applicable	Not applicable	10%
The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced. a/	Periodic PD&R, PIH, and Housing reporting	50%	71%	Improper payments will be no more than 3.0% of total payments	Improper payments will be no more than 2.5% of total payments
The share of public housing units that meet HUD-established physical standards is maintained at 85.1 percent . a/	Real Estate Assessment Center's (REAC) Physical Assessment Subsystem	85.1%	85.8%	85.5%	86%
Ensure 10 percent of PHAs have realistic emergency preparedness plans in place.	Real Estate Assessment Center reporting	Not applicable	Not applicable	Not applicable	10%

a/ This indicator has been revised.

Explanation of Indicators

Converting Public Housing to asset based accounting and management.

The HUD Strategic Plan for fiscal years 2006 through 2011 contains objectives that closely tie the efforts to improve public housing by reforms adopting the asset management model recommended by the Harvard University Public Housing Cost Study. The new funding formula and approach to public housing management requires PHAs to focus more on the efficient and effective management of public housing real estate assets. Under the new management and funding approach, the focus is for each property to provide accounting information and assessments in order to better identify obsolete and excessive costly properties, and then employ incentives to address conditions. This approach is a departure from the current agencywide approach used by many PHAs.

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Under §990.255 of the final rule for the Public Housing Operating Fund, PHAs are required to "implement project-based management, project-based budgeting and project-based accounting." Beginning in fiscal year 2007, PHAs will begin the transition to asset management by converting to project-based budgeting and accounting, impacting the majority of business processes associated with the public housing program. PHAs will report financial information as Asset Management Projects or AMPs, resulting in improved management accountability of public housing. The asset management transition fund will provide technical assistance and training to PHAs so that the Department can achieve its performance goals of converting 50 percent of PHAs to asset-based accounting and 10 percent to asset management. In subsequent years, these indicators will reflect a higher percentage conversion rates, as PHAs must be in full compliance with asset management by 2011.

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, Housing Choice Vouchers, and project-based assistance programs) constitute the Department's largest appropriated activity, with over \$24 billion in annual expenditures. In 2000, a HUD Quality Control (QC) Study estimated that 60 percent of all subsidized rent calculations were done in error, and that there were approximately \$3.2 billion in gross improper payments and \$2 billion in net annual subsidy overpayments attributed to the combination of program administration errors and tenant under-reporting of income upon which the subsidy is based. As a part of the Presidential Management Agenda, the Department 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. In conjunction with OMB, the Department established a goal for a 50 percent reduction in both the frequency of errors and the \$2 billion in net annual overpayments by fiscal year 2005. The Department set interim error reduction goals of 15 percent for fiscal year 2003 and 30 percent for fiscal year 2004, which the Department significantly exceeded with a 71 percent reduction in net subsidy overpayments by the end of fiscal year 2003. Beginning in fiscal year 2006, in compliance with OMB implementing guidance for the Improper Payments Information Act of 2002, gross improper payments will be expressed in terms of gross improper payments estimates as a percentage of total annual program payments. The Department's goal is to reduce the 6.9 percent actual improper payment rate in fiscal year 2003 to 5.0 percent in fiscal year 2006, 3.0 percent in fiscal year 2007, and 2.5 percent in fiscal year 2008.

Moreover, the Department implemented the Rental Housing Integrity Improvement Project (RHIIP) to address the improper payments issue and the associated high program risks and material internal control weaknesses identified by the Government Accountability Office (GAO) and HUD Inspector General. The project represents a shift from the Department'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," thus 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 computer matching programs (up-front income verification initiatives) to validate tenant-reported income; and simplifying program requirements, where feasible.

In fiscal year 2006, HUD field offices and contractors continued to implement its aggressive monitoring efforts, which focuses on the 494 largest PHAs, as well as a number of smaller PHAs. The PIH will prioritize Rental Integrity Monitoring (RIM) reviews of all PHAs in two tiers. Tier I RIM reviews represents the PIH National Risk list. This list consists of "priority" PHAs (approximately 494 PHAs), which receive 80 percent of the Department's funding. PIH has committed to reviewing these agencies at least once every 5 years. Tier II RIM reviews is based on PIH's commitment to review an additional 5 percent (approximately 175) of those 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 the Department's 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 PHA's compliance with the Department's policies and ensure that necessary corrective action plans are implemented where there is PHA noncompliance. This will minimize financial risk to the Department.

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Furthermore, the Department recently consolidated all available income match data sources into the Enterprise Income Verification (EIV) system for centralized access by the Department's program administrators. The Department also plans to expand access to the system to all private owners and contract administrators of multifamily properties during fiscal year 2007. This increased computer matching capability has the potential to eliminate the majority of remaining improper payments related to program administrator errors and tenant underreporting of income. For fiscal year 2008, the Department plans to continue its computer matching programs to deal with tenant under reporting of income; RIM reviews to identify deficiencies in PHAs' income and rent calculations and implementation of corrective action plans to address deficiencies; the QC study for error measurement analysis (conducted by PD&R); and training and technical assistance to PHAs.

The share of public housing units that meet HUD-established physical standards is 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 remain at least 85.5 percent.

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 increase the percentage of public housing units, which meet the HUD-established physical standards.

Indicator: Ensure 10 percent of PHAs in high-risk areas of the country have realistic emergency preparedness plans in place.

The Department plans to develop a survey to measure the readiness and capability of local housing agencies and to determine their ability to respond to emergencies and disasters. This new initiative will support the Strategic Goal of Embracing High Standards of Ethics, Management and Accountability. Data will be extracted from survey results, and dependent upon the initial survey results, further detail and a subsequent follow-up effort may be necessary to gather additional information. The data will be assessed by HUD senior staff working in conjunction with industry professionals to evaluate the next steps required to fully address emergencies and disasters. The survey results and the data assessment will provide the information necessary to develop options to improve the national response to emergencies and disasters.

Public Housing Operating Fund

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

The 2008 the proposed President's Budget includes proposed changes in the appropriations language listed and explained below.

For 2008 payments to public housing agencies for the operation and management of public housing, as authorized by section 9(e) of the United States Housing Act of 1937, as amended (42 U.S.C. 1437g(e)), \$4,000,000,000 of which \$5,940,000 shall be for technical assistance related to the transition and implementation of asset-based management in public housing: Provided, That, in fiscal year 2008 and all fiscal years hereafter, no amounts under this heading in any appropriations Act may be used for payments to public housing agencies for the costs of operation and management of public housing for any year prior to the current year of such Act: 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.

Explanation of Changes

No change.

Public Housing Operating Fund

PUBLIC AND INDIAN HOUSING
 PUBLIC HOUSING OPERATING 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>
Operating Subsidy	\$3,600,000	-\$36,000	...	...	\$1,223	\$3,565,223
Asset Management Transition Fund ..	...	...	...	...	...	...
Housing Self-Sufficiency Award .....	...	...	...	...	...	...
Total	3,600,000	-36,000	...	...	1,223	3,565,223

Public Housing Operating Fund

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

<u>Budget Activity</u>	2007 President's Budget Request	FY 2007 CR Estimate	2007 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2007 Resources
Operating Subsidy	\$3,548,160	\$3,564,000	...	...	\$1,223	\$3,565,223
Asset Management Transition Fund ..	5,940	...	...	...	...	...
Housing Self-Sufficiency Award	<u>9,900</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total	3,564,000	3,564,000	...	...	1,223	3,565,223