HOUSING PROJECT-BASED RENTAL ASSISTANCE 2008 Summary Statement and Initiatives (Dollars in Thousands)

PROJECT-BASED RENTAL ASSISTANCE	Enacted/ Request	Carryover	Supplemental/ Rescission	Total <u>Resources</u>	Obligations	Outlays
2006 Appropriation	\$5,088,300	\$657,284 ^a	-\$50,883	\$5,694,701	\$5,505,349	\$5,368,259
2007 Full-Year CR Estimate	5,458,446 ^b	189,352		5,647,798	5,647,798	5,712,000
2008 Request	5,813,000	<u></u>	<u></u>	5,813,000	5,813,000	5,752,000
Program Improvements/Offsets	+354,554	-189,352		+165,202	+165,202	+40,000

a/ Includes \$46.9 million in funds recaptured during fiscal year 2006.

b/ The President's 2007 Budget requested \$5,675,700.

Summary Statement

Project-Based Rental Assistance (PBRA) assists more than 1.3 million low- and very low-income families in obtaining decent, safe, and sanitary housing in private accommodations. Through PBRA funding, the Department renews section 8 project-based assistance contracts with owners of multifamily rental housing. The Department makes up the difference between what a household can afford and the approved rent for an adequate housing unit in a multifamily development.

The Department is requesting a total of \$5.813 billion for the PBRA account. This request represents an overall increase of \$354.6 million from the estimated fiscal year 2007 full-year continuing resolution funding level of \$5.458 billion. Furthermore, this request represents an increase of \$137.3 million from the President's 2007 budget amount of \$5.676 billion. This request includes \$5.5 billion for the renewal of expiring project-based section 8 contracts, \$286.2 million for contract administrators, and \$4.0 million for Housing's project-based rental assistance working capital requirements. Similar to the President's 2007 budget, this request that recaptures will be available to supplement program funding in fiscal year 2008 as may be necessary.

This budget request provides \$5.522 billion for Contract Renewal funding. This is slightly higher than the 2007 continuing resolution amount and roughly the same as the President's 2007 Budget request. The net increase of \$354.6 million in budget authority from the estimated 2007 continuing resolution level of \$5.458 billion is due primarily to the \$286.2 million requested for Contract Administrators which is a \$140.7 million increase from the 2007 continuing resolution estimated amount and the President's 2007 budget amount. This increase for Contract Administrator funding is necessary to maintain a level of program services consistent with what was provided in fiscal year 2006 and 2007--when substantial amounts of carryover funds supplemented appropriations. These increases are described in detail later in this section.

The Department does not propose the expansion of this program. However, the Department is working hard to strengthen the management and operation of this program. For instance, the Department intends to step up enforcement action against substandard properties. The Department is also working to improve strategies and measures for enhancing the economic well being of residents, and helping residents achieve self-sufficiency.

Strategic Goals and Objectives

In formulating the fiscal year 2008 budget, the Department emphasized performance-based budgeting and, as a result, funding requests are linked to strategic goals, budget objectives, and performance indicators. The PBRA program is essential to achieving three of the Department's six strategic goals:

Strategic Goal B: Promote decent, affordable housing

This Goal is reflective of the Department's work to maximize the role of public and assisted housing as a springboard to advance families who are ready to move toward self-sufficiency, new affordable rental housing, and homeownership opportunities. To achieve this goal, the Department is strengthening its efforts to maintain a stock of safe, healthy and affordable housing. PBRA is a principal tool in achieving this goal. Through PBRA, HUD maintains approximately 1.3 million affordable rental units across the country.

Strategic Goal C: Strengthen communities

The Department is committed to preserving, stabilizing, and revitalizing America's cities as vibrant hubs of commerce, and making communities better places to live, work, and raise a family. As part of this effort, the Department has established the long-term goal of addressing housing conditions that threaten health and safety. PBRA is an essential tool for achieving this goal. Through PBRA funding, the Department is able to maintain approximately 1.3 million units of safe, affordable, and healthy housing across the country.

Strategic Goal E: Embrace high standards of ethics, management, and accountability

Performance indicators for this Goal portrays the Department's commitment to capitalize on modern technology to improve the delivery of HUD's core business functions, as well as increased employee satisfaction, improved management and internal controls, and enhanced service delivery and accountability. In the area of improper payments, the Department has been a leader amongst other Federal agencies, and was the first agency to receive a top rating of green in the President's Management Agenda. To further this trend, the Department plans to reduce the incidence of program errors and improper payments to 2.5 percent of rental assistance payments. To achieve this Goal, the Department will continue the use of Performance-Based Contract Administrators for Housing's project-based Section 8 units and will expand the automated verification of tenant incomes.

			(2011010					
Budget Activity	2006 Budget Authority	2005 Carryover Into 2006	2006 Total <u>Resources</u>	2006 Obligations	2007 CR Estimate	2006 Carryover Into 2007	2007 Total <u>Resources</u>	2008 Request
Contract Renewals	\$4,890,303	\$631,547	\$5,521,850	\$5,336,074	\$5,311,560	\$185,776	\$5,497,336	\$5,522,810
Contract Administrators	145,728	25,737	171,465	167,889	145,500	3,576	149,076	286,230
Working Capital Fund	1,386		1,386	1,386	1,386		1,386	3,960
Section 8 Amendments	<u></u>	<u></u>	<u></u>	<u>•••</u>	<u></u>	<u></u>	<u></u>	<u></u>
Total	5,037,417	657,284	5,694,701	5,505,349	5,458,446	189,352	5,647,798	5,813,000

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

NOTE: "2006 Carryover Into 2007" includes \$46.9 million in Contract Renewal funds recaptured during fiscal year 2006.

	2006	2007	2008
FTE	Actual	Estimate	Estimate
Headquarters	53	51	70
Field	351	348	367
Total	404	399	437

JUSTIFICATION OF FTE INCREASE FROM FY 2007 TO FY 2008

- To transfer, from the Office of Public and Indian Housing to the Office of Housing, the FTE associated with a proposed transfer of the Project-Based Section 8 functions performed by the Financial Management Center.
- In addition, expanded efforts to improve rental subsidy contract data quality and financial management will continue.

Contract Renewals	Amount
2006 Appropriation	\$4,890,303
2007 Full-Year CR Estimate	5,311,560
2008 Request	5,522,810
Program Improvements/Offsets	+211,250

a/ President's Budget requested \$5,526,240 for fiscal year 2007.

Proposed Actions

The Contract Renewals set-aside provides funds for the Department to renew expiring PBRA lease contracts through the fiscal year. These funds are necessary to keep the nearly 1.3 million families assisted by this program in safe, sanitary, and affordable housing each year.

The Department requests \$5.523 billion for PBRA Contract Renewals in 2008. This amount includes \$5.302 billion for the Office of Housing's section 8 project-based contract renewal requirements; \$54.1 million for Office of Community Planning and Development's moderate rehab single room occupancy contract renewals; and \$166.7 million for the Office of Public and Indian Housing's moderate rehab contract renewal requirements. This request represents no increase over the President's 2007 budget, however this request is a \$211 million increase from the estimated fiscal year 2007 full-year continuing resolution funding level of \$5.312 billion. Like previous years, this budget assumes that recaptures will be available to supplement appropriated funds as may be necessary.

Contract Administrators	Amount
2006 Appropriation	\$145,728
2007 Full-Year CR Estimate	145,500
2008 Request	286,230
Program Improvements/Offsets	+140,730

Proposed Actions

The Contract Administrators set-aside is necessary to fund the vast majority of the administration of the PBRA program. Through this set-aside, the Department funds contracts with performance-based contract administrators (PBCA)s. These entities, which are typically public housing authorities or state housing finance agencies, are responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; reviewing, processing, and paying monthly vouchers submitted by owners; renewing contracts with property owners; and responding to health and safety issues at properties.

The Department requests \$286.2 million for Contract Administrators. This is a \$140.7 million increase from the President's 2007 budget and estimated full-year continuing resolution amount. Though this appears to be a substantial increase, it is required to provide the same level of contract administrator services as is currently provided. Previous budgets have assumed that a portion of these costs would be funded from carryover funds. However, over the past few years, more and more PBCAs have taken over administration of the Housing's Section 8 project-based rental units. As of September 30, 2006, nearly all of Housing's renewing units were under contract with a PBCA. As a result, the Department obligated virtually all of the \$265.3 million made available in carryover and newly appropriated funds in this account as well as carryover funds in the Housing Certificate Fund. The Department expects to have no carryover funds available to support contract administrator program activity in fiscal year 2008.

The implementation of PBCAs for project-based section 8 contract administration are a vital tool in the Department's efforts to transform and improve program administration and monitoring. In particular, the Department uses PBCAs to: (1) reduce payment errors; (2) improve the physical condition of units; (3) meet the objectives of the President's Management Agenda (PMA); and (4) ensure timely payment of rents to property owners. In conjunction with the Department's Rental Housing Integrity Improvement Project (RHIIP), PBCAs have helped make HUD a leader amongst Federal agencies in reducing improper payments. Because PBCAs are required to perform extensive annual reviews of properties' operations, including reviewing owners' rent subsidy calculations, they help the Department ensure that the right benefits are going to the right people. Finally, PBCAs help ensure the timely payment of housing assistance to property owners. A recent Government Accountability Office report from November 2005 (GAO-06-57) found that contracts administered by PBCAs had the lowest percentage of late payments when compared to other types of contract administration.

Working Capital Fund	Amount
2006 Appropriation	\$1,386
2007 Full-Year CR Estimate	1,386
2008 Request	3,960
Program Improvements/Offsets	+2,574

a/ President's Budget requested \$3,960,000 for fiscal year 2007.

Proposed Actions

The Department requests \$3.960 million for the PBRA Working Capital Fund transfer in fiscal year 2008. This funds development of, and modifications to, technology systems that serve or are related to the programs or activities under this account. For instance, these funds will allow HUD to continue to develop improved funds control systems and address key Administration goals--such as the elimination of improper payments. With these improvements, HUD will be able to increase the efficiency and effectiveness of future program appropriations.

Section 8 Amendments	Amount
2006 Appropriation	
2007 Full-Year CR Estimate	
2008 Request	<u></u>
Program Improvements/Offsets	

Proposed Actions

The need for Section 8 Amendment funds results from insufficient funds provided for long-term project-based contracts funded primarily in the 1970's and 1980's. During those years, the Department provided contracts that were for terms of up to 40 years. Estimating funding needs over such a long period of time proved to be problematic, and, as a result, many of these Section 8 contracts were inadequately funded. The current practice of renewing expiring contracts for a 1-year term helps to ensure that the problem of inadequately funded contracts is not repeated. However, older long-term contracts that have not reached their termination dates and have not entered the 1-year renewal cycle must be provided amendment funds for the projects to remain financially viable and thus maintain the inventory of affordable rental housing. As in prior years, HUD proposes funding Section 8 Amendment requirements with recaptured funds.

HOUSING PROJECT-BASED RENTAL ASSISTANCE Performance Measurement Table

Program Name: PROJECT-BASED RENTAL ASSISTANCE

Program Mission: Project-Based Rental Assistance is the Federal government's primary program to assist families in meeting their housing needs through publicly subsidized multifamily housing units.

Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
The share of assisted and insured privately owned multifamily properties that meet HUD established physical standards are maintained at no less than 95 percent.	REAC Physical Assessment Subsystem	Maintained at no less than 95 percent	95 percent	Maintained at no less than 95 percent	Maintained at no less than 95 percent
For households living in assisted and insured privately owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent.	PIH/REAC	Maintained at no less than 98 percent	98 percent	Maintained at no less than 98 percent	Maintained at no less than 98 percent
Reduce the average number of observed exigent deficiencies per property for substandard Multifamily Housing properties by 5 percent.	REAC Physical Assessment Subsystem	Reduce by 5 percent from fiscal year 2005. (Not to exceed 1.40 deficiencies per property)	1.46 per property	Reduce by 10 percent	Reduce by 5 percent
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 Physical Assessment Subsystem	Maintain 92.8 percent or greater	93.8 percent	92.8 percent or greater	92.8 percent or greater
The incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.	PD&R	Improper payments no more than 5 percent of total payments	Results not available due to one-year reporting lag	payments no more than 3 percent of	Improper payments no more than 2.5 percent of total payments

Explanations of Indicators

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

Improving the performance of housing intermediaries in meeting HUD's physical standards for public and multifamily housing is a high priority for this administration and was, therefore, included in the President's Management Agenda (PMA). Private owners of HUD-assisted multifamily housing have a contractual obligation to meet these physical standards, or comply with local codes if they are more stringent.

The Department plans to at least maintain the fiscal years 2006 and 2007 goal into fiscal year 2008. This performance goal builds on recent successes and exceeds the benchmark established in the PMA. This is a very high performance rate and reflects the important outcome goal of providing healthy, quality, and safe housing for HUD's multifamily inventory.

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

- Continue to monitor privately assisted multifamily housing through Section 8 contract administrators who perform management and occupancy reviews, and through physical inspections on 100 percent of their portfolios.
- Use the Mark-to-Market program to ensure that management of HUD-assisted, privately owned housing meets its operating obligations, resulting in ongoing maintenance of proper physical standards at these properties.
- Use data from the Department's Real Estate Assessment Center on the financial soundness of providers of assisted multifamily housing, physical quality of stock, and satisfaction of the residents. Multifamily Housing may refer property owners to the Departmental Enforcement Center for enforcement action or sanctions.

For households living in assisted and insured privately owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent.

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

The fiscal year 2008 goal is to maintain high compliance and successful resolutions so that at least 98 percent of the properties submitting audited financial statement either have no compliance issues or audit findings or have such issues or findings closed (resolved) by September 30, 2008.

Reduce the average number of observed exigent deficiencies per property for substandard Multifamily Housing properties by 5 percent.

Improving the physical quality of HUD-assisted privately owned Multifamily housing is a major outcome goal for the Department, and is included as a priority in the President's Management Agenda. Therefore the Department's Real Estate Assessment Center conducts physical inspections that identify exigent health and safety or fire safety deficiencies on HUD involved properties. Exigent health and safety hazards include but are not limited to: (1) air quality, gas leaks; (2) electrical hazards, exposed wires/open panels; (3) water leaks on or near electrical equipment; (4) emergency/fire exits/blocked/unusable fire escapes; (5) blocked egress/ladders; and (6) carbon monoxide hazards. Fire safety hazards include: (1) window security bars preventing egress; and (2) fire extinguishers expired. This indicator measures the reductions in exigent health and safety or fire safety deficiencies nationwide as HUD applies

its physical inspection protocol, Uniform Property Condition Standards, to substandard properties. The use of physical inspections by the Real Estate Assessment Center has led to a general reduction in exigent health and safety hazards even with an aging portfolio and high occupancy rates. The Office of Multifamily Housing's project managers in the field require owners to certify the correction of such deficiencies within 72 hours. This indicator is based on identification of such conditions when inspected.

The Department's fiscal year 2008 goal is to continue inspections of HUD involved properties and reduce the number of observed exigent deficiencies by 5 percent.

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.

Protecting HUD assisted low-income renters from fire hazards is a crucial part of HUD's goal to improve the quality of public and assisted housing. 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 has been successful in meeting its goal to increase the share of units with functional smoke detection systems in assisted multifamily housing. Through the use of management tools that track the housing quality of assisted housing, such as inspections by the Real Estate Assessment Center, the Department will continue to work with its partners toward meeting this objective. The fiscal year 2008 goal is to continue to improve results.

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

The Improper Payments Information Act of 2002 requires Federal agencies to assess improper payment risks and to measure and report on programs and activities that may be susceptible to improper payments. HUD has addressed eliminating improper payments in its Strategic Plan and Annual Performance Plan. Because of the significance of this issue, it has been included as an initiative on the President's Management Agenda for HUD.

Because of a 1-year lag in reporting, fiscal year 2006 data is not yet available. However, based on a recent study of fiscal year 2005 program activity, HUD significantly exceeded all Improper Payment reduction goals with an estimated 60 percent reduction in gross improper payments since 2001. Moreover, HUD has proven to be a leader amongst Federal agencies in reducing improper payments-receiving a top rating of "green" with regards to the President's Management Agenda. HUD plans to build on this success by reducing improper payment to no more than 5 percent of total payments by fiscal year 2006, 3 percent of total payments by fiscal year 2007, and 2.5 percent of total payments by fiscal year 2008.

HUD has accomplished this success by providing better guidance, outreach and training to program administrators, tenant beneficiaries, and HUD monitoring staff. The Department also credits increased monitoring by Performance-Based Contract Administrators of Housing's project-based Section 8 units, and the early impacts of the Rental Housing Integrity Improvement Project. In addition, HUD is taking advantage of new computer systems to automate and centralize information. Among these systems is the Enterprise Income Verification System, which shares state wage and unemployment information for tenant income verification. To accomplish fiscal 2008 goals, HUD plans to continue the Rental Housing Integrity Improvement Project, maximize Performance-Based Contract Administrator coverage, and expand the use of the Enterprise Income Verification System.

HOUSING PROJECT-BASED RENTAL ASSISTANCE Proposed Appropriations Language

(INCLUDING TRANSFER OF FUNDS)

For activities and assistance for the provision of project-based subsidy contracts under the United States Housing Act of 1937, as amended (42 U.S.C. 1437 et seq.) ("the Act" herein), not otherwise provided for, \$5,813,000,000 to remain available until expended. Provided, That the amounts made available under this heading are provided as follows:

- (1) no less than \$5,522,810,000 for expiring or terminating section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for amendments to section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for contracts entered into pursuant to section 441 of the McKinney-Vento Homeless Assistance Act, for renewal of section 8 contracts for units in projects that are subject to approved plans of action under the Emergency Low Income Housing Preservation Act of 1987 or the Low-Income Housing Preservation and Resident Homeownership Act of 1990, and for administrative and other expenses associated with project-based activities and assistance funded under this paragraph.
- (2) up to \$286,230,000 for performance-based contract administrators for section 8 project-based assistance;
- (3) \$3,960,000 to be transferred to the Working Capital Fund; and
- (4) amounts which are recaptured under this heading, the heading "Annual Contributions for Assisted Housing", or the heading "Housing Certificate Fund" may be used for renewals of or amendments to section 8 project-based contracts or for performancebased contract administrators, notwithstanding the purposes for which such amounts were appropriated.

HOUSING PROJECT-BASED RENTAL ASSISTANCE Crosswalk of 2006 Availability (Dollars in Thousands)

2006 Enacted	Supplemental/ Rescission	Approved Reprogrammings	Transfers	Carryover	Total 2006 <u>Resources</u>
\$4,939,700	-\$49,397			\$631,547 ^a	\$5,521,850
147,200	-1,472			25,737	171,465
1,400	-14				1,386
<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
5,088,300	-50,883			657,284	5,694,701
	\$4,939,700 147,200 1,400 	2006 Enacted Rescission \$4,939,700 -\$49,397 147,200 -1,472 1,400 -14	2006 Enacted Rescission Reprogrammings \$4,939,700 -\$49,397 147,200 -1,472 1,400 -14	2006 Enacted Rescission Reprogrammings Transfers \$4,939,700 -\$49,397 147,200 -1,472 1,400 -14	2006 Enacted Rescission Reprogrammings Transfers Carryover \$4,939,700 -\$49,397 \$631,547 ^a 147,200 -1,472 25,737 1,400 -14

a/ Includes \$46.9 million in funds recaptured during fiscal year 2006.

HOUSING PROJECT-BASED RENTAL ASSISTANCE Crosswalk of 2007 Changes (Dollars in Thousands)

Budget Activity	2007 President's Budget <u>Request</u>	FY 2007 <u>CR Estimate</u>	2007 Supplemental/ <u>Rescission</u>	<u>Reprogrammings</u>	Carryover	Total 2007 <u>Resources</u>
Contract Renewals	\$5,526,240	\$5,311,560			\$185,776	\$5,497,336
Contract Administrators	145,500	145,500			3,576	149,076
Working Capital Fund	3,960	1,386				1,386
Section 8 Amendments	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
Total	5,675,700	5,458,446			189,352	5,647,798

Project-Based Rental Assistance

Program Activity

		Per	
	Units	<u>Unit Cost</u>	Obligations
FY 2006 Actual:			
Contract Administrators	NA	NA	\$167,889,219 a/
Working Capital Fund	NA	NA	1,386,000
Contract Renewals			
CPD - Moderate Rehabilitation SRO	8,220	NA	35,931,715
PIH - Moderate Rehabilitation	31,506	NA	236,444,110
Housing	943,549	<u>NA</u>	<u>5,063,698,001</u>
Subtotal, Contract Renewals	983,275		5,336,073,826 b/
Total, FY 2006 Project-Based Rental Assistance		NA	5,505,349,045

NA = Not Available.

NOTE:

a/ Excludes \$93,799,351 obligated for this activity in the Housing Certificate Fund.

b/ Excludes \$156,234,408 obligated for this activity in the Housing Certificate Fund.

Project-Based Rental Assistance

		Per	Budget
	<u>Units</u>	<u>Unit Cost</u>	<u>Authority</u>
FY 2007 President's Budget:			
Contract Administrators	NA	NA	\$145,500,000
Working Capital Fund	NA	NA	3,960,000
Contract Renewals			
CPD - Moderate Rehabilitation SRO	9,397	\$5,124	48,150,228
PIH - Moderate Rehabilitation	28,285	6,950	196,593,309
Housing	<u>967,109</u>	<u>NA</u>	5,281,496,463
Subtotal, Contract Renewals	1,004,791		5,526,240,000
Total, FY 2007 Project-Based Rental Assistance	1,004,791	NA	5,675,700,000
NA = Not Available.			
		Per	Budget
	<u>Units</u>	<u>Unit Cost</u>	Authority

	UIILS	UNIC COSC	Auchoricy
FY 2008 Request:			
Contract Administrators	NA	NA	\$286,230,000
Working Capital Fund	NA	NA	3,960,000
Contract Renewals			
CPD - Moderate Rehabilitation SRO	10,214		54,119,158
PIH - Moderate Rehabilitation	25,739		166,711,641
Housing	<u>985,399</u>	NA	<u>5,301,979,201</u>
Subtotal, Contract Renewals	1,021,352		5,522,810,000
Total, FY 2008 Project-Based Rental Assistance	1,021,352	NA	5,813,000,000

NA = Not Available.