

**PUBLIC AND INDIAN HOUSING  
PUBLIC HOUSING CAPITAL FUND  
2014 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>
2012 Appropriation .....	\$1,875,000	\$81,646 <sup>a/</sup>	...	\$1,956,646	\$1,880,165	\$2,718,653
2013 Annualized CR .....	1,886,475	76,481 <sup>b/</sup>	...	1,962,956	1,942,956	2,500,000
2014 Request .....	<u>2,000,000</u>	<u>20,000</u>	...	<u>2,020,000<sup>c/</sup></u>	<u>1,999,000</u>	<u>2,388,000</u>
Program Improvements/Offsets .....	+113,525	-56,481	...	+57,044	+56,044	-112,000

- a/ Carryover includes \$67.5 million in actual carryover and \$14.1 million in recaptures realized in fiscal year 2012. Excludes carryover in the amount of \$9.5 million from the 1974 and 1975 source year (mandatory BA) that will be returned to the Treasury, and is unavailable as a resource. This also excludes carryover in the amount \$3.2 million that expired during the fiscal year.
- b/ Excludes carryover in the amount of \$10 million from the 1974 and 1975 source year (mandatory BA) that will be returned to the Treasury and is unavailable as a resource.
- c/ Total resources and obligations for fiscal year 2014 exclude an estimated \$11 million transfer from the Public Housing Capital Fund to the Rental Assistance Demonstration (RAD) for implementation. This number also includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent of Budget Authority.

**1. What is this request?**

The Department requests \$2 billion for the Public Housing Capital Fund, which is an increase of \$125 million over fiscal year 2012. This request is comprised of \$1.957 billion for Public Housing Capital Fund grants, \$20 million for the Emergency and Disaster Reserve, \$15 million for the Jobs-Plus Pilot Initiative and \$8 million for Financial and Physical Assessment Support.

The Department is requesting an increase in Public Housing Capital Fund grants in the amount of \$167 million as compared to the fiscal year 2012 appropriation. Funding for the Capital Fund program at the level requested will help PHAs make capital repairs to their housing stock and prevent public housing properties from falling into a state of obsolescence or disrepair, which would lead to their removal from the inventory. It will enable continued PHA participation in the CFFP and leveraging of private investment and tax credits to meet their rehabilitation, preservation, and energy efficiency needs. An appropriation below the level requested will exacerbate the growth in the backlog and would be expected to accelerate the loss of public housing, which provides a home for some of the Nation’s most economically vulnerable families.

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The Department is requesting \$15 million for the Jobs-Plus Pilot Initiative. This Initiative is an evidence-based strategy for increasing the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This proven model helps public housing residents secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit (EITC). A randomized experiment evaluation of the Jobs-Plus demonstration in three demographically diverse sites found that, on average, participants had an additional \$1,300 in earnings every year from 2000 to 2006, and these earnings were durable beyond the period of the intervention.

The Department is not requesting funding for the Resident Opportunities and Self-Sufficiency (ROSS) program. In making this decision, the Department considered that ROSS grants are 3-year grants and most service coordinators will be funded from prior year appropriations. Moreover, the Department is requesting \$75 million for a consolidated Family Self Sufficiency (FSS) program, (discussed in a separate justification), which are 1-year grants. The Department recognizes that the FSS coordinators often do not work with the same families as the ROSS coordinators. The consolidated FSS program will likely not reach households that a service coordinator funded through the ROSS program would, such as some elderly or disabled residents, and residents who are not of working age. However, PHAs still have discretion to use a portion of their operating subsidies to retain ROSS service coordinators.

The Department requests no funding for Administrative and Judicial Receiverships (AJR) and reduced funding for Financial and Physical Assessment Support (FPA) due to large carryover balances that are projected to be available to meet fiscal year 2014 needs.

The Department will use its statutory authority under the Consolidated and Further Continuing Appropriations Act of 2012 (Public Law 112-55) to transfer amounts from the fiscal year 2014 Capital Fund appropriation to the TBRA and/or PBRA accounts, as appropriate, to fund renewal costs for public housing units converting under the Rental Assistance Demonstration (RAD) in calendar year 2013. . The Department currently estimates that \$11.2 million from the Capital Fund and \$32 million from the Operating Fund will need to be transferred to the TBRA and PBRA accounts in fiscal year 2014 for this purpose (approximately \$21.6 million to each account). However, the precise amount will be determined based on the number and characteristics of units that actually complete conversion in calendar year 2013. See a full discussion of the RAD proposal in a separate justification.

Key outcomes of the Capital Fund program are:

1. Increasing occupancy in public housing.
2. Decreasing energy costs.
3. Leveraging federal resources.

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### 2. **What is this program?**

The Public Housing Capital Fund program is a formula-driven program that serves as the primary source of funding for public housing rehabilitation and development by providing grants to approximately 3,100 PHAs. It supports the Department's mission by enabling PHAs to provide safe, decent, and affordable housing to approximately 1.1 million families who cannot afford or will not be served by housing in the private market, 60 percent of whom are fixed-income seniors or families in which the head-of-household is a disabled person.

The Capital Fund Program is authorized by § 9(d) of the United States Housing Act of 1937, codified at 42 U.S.C. § 1437g (d).

The statute requires the grants be made according to a formula. This formula was created through negotiated rulemaking and is codified at 24 C.F.R. § 905.

Statutorily permissible uses of Capital Fund formula grants include the following:

- Development, financing, and modernization projects, including the redesign, reconstruction, and reconfiguration of public housing sites and buildings (including accessibility improvements) and the development of mixed-finance projects;
- Vacancy reduction;
- Addressing deferred maintenance needs and replacement of obsolete utility systems and dwelling equipment;
- Planned code compliance;
- Management improvements;
- Demolition and replacement;
- Resident relocation;
- Capital expenditures to facilitate programs to improve the empowerment and economic self-sufficiency of public housing residents and to improve resident participation;
- Capital expenditures to improve the security and safety of residents;
- Homeownership activities;
- Improvement of energy and water-use efficiency by installing fixtures and fittings;
- Integrated utility management and capital planning to maximize energy conservation and efficiency measures; and

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- Debt service that may have been incurred to finance the rehabilitation and development of public housing units.

### Accessing Private Capital

Recognizing the need to identify capital resources other than direct grants, the Department was granted the authority to transfer amounts provided under the Capital Fund and Operating Fund to launch a Rental Assistance Demonstration (RAD). Under RAD, PHAs have the option to convert individual properties to the section 8 program, enabling them to leverage private capital to address the properties' capital backlog and fund a capital replacement reserve for anticipated repair and replacement needs. Currently, through the Capital Fund Financing Program (CFFP), PHAs may pledge a portion of their future Capital Fund program grants as payment for debt service.

The viability of both RAD and CFFP depend upon adequate funding of the Capital Fund program. Conversion rents for PHA participants in RAD will be based on current funding. In the case of CFFP, decreases in program funding not only affect the leveraging potential of the program by sending a potentially cautionary signal to investors, but also diminish the resources available to other properties in a PHA's portfolio since the PHA's commitment to CFFP creditors must be honored first and foremost. The reduced appropriations of recent years have increased debt service coverage ratios at PHAs that entered into CFFP transactions in earlier years, resulting in downgrades of PHA CFFP bonds from the credit rating agencies. Similarly, PHAs wishing to enter into new transactions have faced increased interest rates and decreased proceeds that can be raised based on lenders' and underwriters' expectations of future levels of appropriations.

### Moving-to-Work

Moving-to-Work (MTW) is a demonstration program that provides PHAs the opportunity to design and test innovative, locally designed strategies that use federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. MTW gives PHAs exemptions from many existing public housing and voucher rules and more flexibility with how they use their federal funds. MTW PHAs are expected to use the opportunities presented by MTW to inform HUD about ways to better address local community needs. The Budget proposes a substantial expansion of the MTW program to high-capacity PHAs (discussed below).

The MTW statute provides that an agency participating in the MTW demonstration program may combine Public Housing Operating and Capital funds provided under Section 9 of the U.S. Housing Act of 1937 (the "1937 Act") and voucher program funds provided under Section 8 of the 1937 Act "to provide housing assistance for low-income families, as defined in section 3(b)(2) of the 1937 Act, and services to facilitate the transition to work on such terms and conditions as the agency may propose and the Secretary may approve." The MTW language above is intended to allow for the use of appropriated funds beyond what is authorized by Sections 8 and 9 of the 1937 Act, provided that the MTW agency uses its combined funds to provide housing assistance for low-income families, as defined in section 3(b)(2) of the 1937 Act, and services to facilitate the transition to work, whether or not any such use

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is authorized by Sections 8 or 9 of the 1937 Act, and provided such uses are consistent with other requirements of the MTW statute and have been proposed in an agency's Annual MTW Plan and approved by HUD.

### Other Uses of Funding

Of the amount requested for fiscal year 2014, approximately \$1.957 billion will fund modernization grants for Public Housing. Additional amounts will be used as described below.

- Emergency/Disaster Reserve. Up to \$20 million will be set aside in an emergency/disaster reserve. The reserve makes funds available to PHAs to meet capital needs resulting from an unforeseen emergency situation or a non-Presidentially declared natural disaster. PHAs that suffer damage as a result of Presidentialy declared natural disasters are eligible to receive funding from the Federal Emergency Management Agency under the Robert T. Stafford Relief Act.
- Financial and Physical Assessment Support. The Department proposes \$8 million to support financial and physical assessment support for rental housing assistance programs. Assessment activities are primarily done by the Real Estate Assessment Center (REAC), which provides the Offices of Housing and Public and Indian Housing with timely and accurate assessments of the HUD-assisted real estate portfolio using physical and financial management assessments.
  - Financial assessment. The PIH-REAC Financial Assessment Subsystem for Public Housing (FASS-PH) assesses the financial condition of approximately 3,100 PHAs that receive HUD funds to manage and operate units of public housing. In addition to evaluating financial health, FASS-PH conduct various analyses to aid in the improvement of PHAs' financial outlook. These functions assist HUD in distinguishing between PHAs that are financially stable and compliant from those that present a degree of financial risk to HUD. FASS-PH also provides PIH-REAC with a complete database of PHAs' financial data. The system provides PHAs with the ability to submit financial information to PIH-REAC via a secure Internet connection. REAC also verifies the income of Public Housing residents to ensure housing subsidies are paid accurately.
  - Physical assessment. The PIH-REAC Physical Assessment Subsystem (PASS) manages the physical assessment protocols required to evaluate the overall physical condition of PHA projects and Multifamily Housing (MF) properties that receive assistance, or are insured under, the FHA mortgage insurance programs. REAC is responsible for inspecting the physical condition of approximately 30,000 multifamily properties and 7,200 public housing projects. The physical condition of properties in which HUD has a financial interest, such as those mentioned above, are evaluated through periodic inspections conducted by independent contract inspectors and quality assurance inspectors. These inspectors are certified in the use of HUD's Uniform Physical Condition Standards (UPCS) for reporting the physical condition of public housing properties. PASS trains and certifies inspectors; coordinates the procurement of inspections for MF assisted properties and PHA projects; ensures appropriate inspection scheduling for both PHA and MF properties; provides property specific on-line reporting of UPCS inspection results through HUD Secure Systems; provides quality assurance reviews for 100

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percent of inspections conducted; arranges for correction and rescheduling of inspections that are deemed outside of standard, incomplete, or deficient; calculates all property inspection scores; and responds to technical review and database adjustment appeal requests from PHAs and MF owners.

- Job-Plus Pilot Initiative. The Department requests up to \$15 million to fund the Jobs-Plus Pilot Initiative, an evidence-based strategy for increasing the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This proven model will help public housing residents secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit. A randomized experiment evaluation of the Jobs-Plus demonstration in three demographically diverse sites found that, on average, participants had an additional \$1,300 in earnings every year from 2000 to 2006, and these earning increases were stable the period of the intervention. To scale up this successful model, HUD will award competitive grants to partnerships between high-capacity PHAs and local workforce investment boards, or other agencies and organizations that provide support to help public housing residents obtain employment and increase earnings. The grants will target PHAs and housing developments with enough work-eligible residents to achieve economies of scale, and will prioritize broad and diverse local partnerships that cut across sectors, agencies, and funding streams. Based on cost estimates from the previous demonstration of the Jobs-Plus model, HUD anticipates that the Jobs-Plus Pilot Initiative will reach over 30,000 work-eligible public housing residents. HUD intends to fund only those partnerships that demonstrate the capacity to implement all elements of the Jobs-Plus model effectively.

In fiscal year 2014, the Department renews its request for the Transformation Initiative (TI), which provides the Secretary the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. This program may transfer up to 0.5 percent or \$15 million, whichever is less, to the TI Fund for the operation of a second-generation Transformation Initiative (TI2).

### Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

Effective administration of the Public Housing Capital Fund is dependent on the operating resources requested in the Salaries and Expenses Justification. For fiscal year 2014, \$40 million is requested to operate this program account. This is an increase of \$25 thousand from fiscal year 2012.

The Department requests funding for 292 FTE which equates to \$38.50 million for Capital Fund Personnel Services. This is a decrease of 11 FTE from fiscal year 2012. This decrease is due to a shifting of resources to focus on Presidential Initiatives such as Choice Neighborhoods.

The Department requests \$1.58 million in Non-Personnel Services funding for travel, contracts, training and other related operating expenses associated with the Capital Fund program, an increase of \$348 thousand from fiscal year 2012.

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### Workload by Function

The largest workload functions to which dedicated Capital Fund staff report are as follows:

1. Oversight and Monitoring (230 FTE)
2. Program Administration (43 FTE)
3. Program Support (19 FTE)

Capital Fund staff act in these functional areas in the following ways:

Over 75 percent of Capital Fund staff is dedicated to oversight and monitoring of 11,346 open Capital Fund grants. A significant activity in oversight and monitoring is data collection and analysis. Public Housing program staff in both Headquarters and Field Offices ensure the effective use of accurate, timely, and reliable information to assess the condition of HUD's Public Housing portfolio. Field Office staff, especially, play a key role in monitoring for compliance, providing expert technical assistance, reviewing proposed changes to the Public Housing stock, and collecting data from PHAs. Data compiled by staff help to ensure safe, decent, and affordable housing and help to restore public confidence by identifying waste, fraud, and abuse of Federal dollars. This data allows PHAs to become better managers of the Public Housing inventory and better stewards of the public trust, while enabling HUD to identify potential problem situations for PHAs. As a result of these efforts, the Department has been able to achieve documented success, as measured by increased levels of occupancy and substantive improvements in energy efficiency and the use of green initiatives.

The Department has focused attention on key measures of success, quantified through explicit Agency Performance Goals. These goals, with related supporting measures and outputs, serve to direct and then document the results of each program area. Through an explicit effort at collaboration and coordination, the various functional areas within PIH and across other Departmental and agency programs work together with shared objectives. HUD Field Offices also conduct remote reviews of all PHAs and on-site reviews of many PHAs. These reviews contribute to the improvement of the Department's data collection. The Department has observed trends suggesting a correlation between more of these on-site reviews and fewer troubled housing authorities on a jurisdiction by jurisdiction basis. Field Offices are also responsible for reviewing the program submissions of PHAs, including the Capital Fund Annual Plan, and ensuring PHAs meet other reporting requirements, such as the EPIC system and the Physical Needs Assessment (PNA).

About 15 percent of Capital Fund staff is dedicated to program administration. A significant component of this function is the awarding and implementation of annual Capital Fund formula grants. This task entails calculating and processing formula grants for approximately 3,100 PHAs on an accurate and timely basis, monitoring the grants for statutory and regulatory compliance from award to close-out, and providing ongoing technical assistance and guidance. This includes funding for units that are demolished by providing Replacement Housing Factor (RHF) funds, monitoring subsequent use, and ensuring that units for which the PHAs are claiming RHF funds have not been replaced with other resources.

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Administrative staff create the framework for the monitoring performed in the Field Offices. Staff efforts are essential in assuring that PHAs understand and comply with program requirements, including spending funds on eligible purposes and within established timelines. Capital Fund staff interact with both Field Offices and PHAs to maximize the effectiveness of modernization and rehabilitation funding. Capital Fund staff also administer and monitor the financial management system used to manage the PHAs' formula grants and associated budgets. Additionally, this function involves policy direction of the program. Finally, within this functional area, Capital Fund staff manage, oversee and monitor the Moving-to-Work (MTW) Demonstration Program. MTW agencies are exempt from many public housing and voucher program rules and have the flexibility to combine funding under the public housing and voucher programs, in order to design and test innovative, locally designed strategies that use federal dollars more efficiently, help residents find employment, become self-sufficient, and increase housing choices for low-income families. MTW staff develop guidance, evaluate proposed initiatives, conduct mandatory site visits to ensure proper program management, and perform oversight.

Approximately 6 percent of the Capital Fund staff is dedicated to Program Support. The Program Support staff for the Capital Fund program is a vital component of the organization. They provide support for all Capital Fund staff and perform critical administrative functions that enable the staff to accomplish their work timely and effectively. The staff is responsible for making sure that the business processes are followed as it relates to tracking correspondence, maintaining files, scheduling meetings and processing FOIAs. Additionally, this staff provides support for personnel actions, processing of grants applications, and contracting actions. Finally, Program Support staff is responsible for funds control for the Capital Fund program within the Department and budget planning.

### Capital Fund Information Technology Needs for 2014

In 2014, the Department intends to automate significant portions of the business functions associated with the Capital Fund program with an automated Physical Needs Assessment (PNA) tool to Public Housing Agencies, planned for fiscal 2013, that gives them the ability to track the capital needs of their inventory in a comprehensive way. The Department will also establish the ability to aggregate data from PNA tools through its Energy and Performance Information Center (EPIC) system. The EPIC system will also give PHAs the ability to integrate PNA analysis into the regular capital fund planning process that is, either approved by or reported to the Department through Capital Fund 5-year plans, Annual Statements and Performance and Evaluation reports. In 2014, the Department intends to integrate the EPIC system with the Next Generation Management System (NGMS). The Department will extend the functionality of the system in a number of significant respects including the following:

- Creating functionality for HUD Field Office staff to be able to monitor the capital condition of public housing as well as PHA management of capital fund investments;
- Functionality to further automate the awarding of Capital Funds to PHAs;

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- Integration of energy/water consumption data with data on capital investments related to energy savings, as well as the generation of an energy/water consumption profile for each public housing development. This will provide information on opportunities for cost savings related to potential capital investments directed at reducing energy/water consumption;
- Integrating the data on capital investments collected through EPIC/NGMS with the financial statement data collected through the Financial--Assessment Subsystem, so that the portion of PHA financial statements that addresses capital asset value are synchronized with capital fund reports of investments;
- Functionality to automate the processing of alternative financing submissions; and
- Functionality to enhance Field Office staff ability to track obligations and expenditures on the part of PHAs, in order to enhance the monitoring of/avoid the violation of Section 9(j) requirements for timely obligation and expenditure of capital funds.

In 2014, the Department will continue to implement several significant initiatives. These initiatives will include the publication of a new Capital Fund regulation that will modify some key aspects of the Capital Fund program, including the requirements for Replacement Housing Factor (RHF) grants, Capital Fund reporting, use of funds for Management Improvements, and developing new public housing. In addition, the Department will publish a regulation on Physical Needs Assessments (PNAs) and Energy Audits. In order to properly implement both of these regulations, the Department will need resources to provide extensive technical assistance, including training PHAs on the new/revised requirements contained in the regulations. In addition, the Department anticipates that a number of PHAs will need more intensive technical assistance to successfully adapt to the changes. The Department will also need additional resources to analyze PHA performance in relation to the Capital Fund program, in order to properly direct its technical assistance efforts. The Department will also continue to rely on technical assistance resources to support its efforts in relation to approving and overseeing alternative financing arrangements given the specialized expertise involved in such transactions.

### **3. Why is this program necessary and what will we get for the funds?**

The Capital Fund program is the only source of federal funding available to PHAs dedicated to addressing their properties' modernization needs. The current housing crisis underscores the broad impact housing has on people's lives; the importance to families and communities of quality, stable, affordable rental housing has never been more apparent. A leading cause of homelessness and worst-case housing needs is the lack of affordable housing available to the lowest-income households. For low-income families, public housing is essential to the prevention of homelessness.

In February 2013, HUD released a summary of its biennial Worst Case Housing Needs Report. HUD found that the number of very low-income renters facing severe housing problems continues to grow. In 2011, nearly 8.5 million households had worst case housing needs, up from 7.1 million in 2009. This represents a 19 percent increase since 2009 and 43 percent since 2007. Worst case needs are defined as renters with very low incomes (below half the median in their areas) who do not receive government housing assistance and who either paid more than half of their monthly incomes in rent, lived in substandard conditions, or both.

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Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas. In addition, large numbers of worst case needs were also found across various household types including families with children, senior citizens, and persons with disabilities.

The rise in hardships among renters is due to substantial increases in rental housing demand and weakening incomes that increased competition for already-scarce affordable units. Increases in demand were so great that they overwhelmed increases in supply of units affordable at incomes below 50 percent of AMI. As a result, the gap between the number of affordable units that were available for very low-income renters and the number of renters who need these units not only failed to improve in percentage terms, but worsened in absolute terms.<sup>1</sup>

Public housing is one of the few options for many of the Nation's lowest-income families and helps prevent those with worst-case housing needs from slipping into homelessness. Although demographic changes and the state of the economy are partially to blame, the main contributor to the increase in worst-case housing needs is the lack of affordable housing. Wait times for housing assistance are also at an all-time high; as a result, many communities have simply closed their waitlists.

More than half of the Nation's Public Housing stock was constructed prior to 1970. As a result, the Nation's Public Housing units require significant rehabilitation work to ensure that they are safe, decent, and sustainable units. To protect the substantial federal investment in the public housing inventory and to respond to the growing demand for affordable rental housing, HUD must continue to make standard life-cycle improvements to the public housing inventory, while also rehabilitating or replacing distressed units. Without substantial investment in the inventory through the Capital Fund program, the loss of affordable housing units due to obsolescence and disrepair will accelerate.

The Capital Fund is essential to achieving this Administration's goals related to increasing occupancy in public housing, decreasing energy costs, and leveraging federal resources.

- Increasing occupancy in public housing. Given high unemployment rates, increased rental prices, and the overall economic crises our country faces, access to affordable housing is crucial to preventing homelessness and reducing worst-case housing needs. The Agency Priority Goal regarding rental housing addresses this issue by encouraging HUD programs to meet more of the growing need for affordable rental homes by serving 61,000 more families by the end of fiscal year 2013 than it served in fiscal year 2011. HUD is focused on the challenge of increasing access to affordable housing in order to provide a stable platform for low-wage families, prevent homelessness, and reduce worst-case housing needs. During fiscal years 2011 and 2012, Capital Fund programs, including the Capital Fund Formula, Replacement Housing Factor, American Recovery and Reinvestment Act (The Recovery Act), and Recovery Act Federalization, have contributed to this goal by enabling HUD to

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<sup>1</sup> See U.S. Department of Housing and Urban Development. 2013 (February). *Worst Case Housing Needs 2011: A Report to Congress (Summary)*.

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serve an additional 31,366 families. The fiscal year 2014 request is expected to enable HUD to continue providing housing resources for the additional families to whom it expanded access in earlier years.

- Decreasing energy costs. A clean energy economy is vital for America to compete in the new century. To achieve this goal, the Department is committed to expanding energy-efficient housing options. The Agency Priority Goal regarding energy efficiency states that HUD will complete cost-effective energy, green, and healthy retrofits of 159,000 public, assisted, and other HUD-supported affordable homes in fiscal years 2012 and 2013. In fiscal year 2012, the Capital Fund, through the use of Recovery Act funds, contributed to achieving this goal by making over 15,000 units/unit equivalents more energy efficient. These improvements were captured in the Recovery Act Management Performance System. HUD was able to leverage this system development into a new system, the Energy Performance Improvement Center, for the regular program that will provide similarly heightened assurances of the good-stewardship of public funds.
- Leveraging federal resources. Given the scarcity of federal resources, PHAs can only meet needs by using federal funds to leverage outside investment. One of the programs created to achieve this purpose is the CFFP. HUD has approved approximately 176 transactions involving 241 PHAs through the CFFP and other alternative financing programs. The total amount of loan and bond financing approved to date is approximately \$3.8 billion, benefiting approximately 75,000 units. The CFFP has evolved such that PHAs are further leveraging their Capital Fund dollars by utilizing the CFFP to obtain Low-Income Housing Tax Credits. Approximately \$2.5 billion worth of tax credits have been leveraged using CFFP funds. These are significant accomplishments given the complexity of CFFP transactions and challenges faced by recent Capital Fund budget reductions, mentioned earlier.

The following table shows, more than 70 percent of households living in public housing have incomes less than 30 percent of the area median income (AMI); nearly 60 percent have a head of household who is elderly, disabled, or both; and 40 percent are families with children.

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Public Housing Tenant Characteristics 2012					
<b>Regional Breakdown</b> 		<b>Disabled Households</b> 27%		<b>Ethnicity Characteristics</b> Hispanic 24% Non-Hispanic 76%	
<b>Families with Children</b> 40%		<b>Elderly Households</b> 31%		<b>Average Tenant Contribution</b> \$321	
<b>Female Headed Households</b> 75%		<b>Family Size</b>		<b>Average Gross Income</b> \$13,633	
		1 Person 46% 2 Persons 21% 3 Persons 15% 4 Persons 10% 5 Persons 5% 6 Persons 2% 7 Persons 1% 8+ Persons 0%		<b>HoH Race Characteristics***</b> White Only 51% Black Only 45% American Indian / Native American 1% Asian 2% Mix/Unknown 1%	
		<b>Average Family Size</b> 2.2		<b>Income Status****</b> Extremely Low Income (≤30% AMI) 71% Very Low Income (≤50% AMI) 17% Low Income (≤80% AMI) 7% Above Low Income (>80% AMI) 4%	
		<b>Any Income from Wages**</b> 31%			

Source: 2012 Public and Indian Housing Information Center (PIC) data  
 HOH is head of household; AMI is Area Median Income  
 Wages from non-elderly, non-disabled households

#### **4. How do we know this program works?**

Periodically, the Department evaluates the capital needs of the public housing portfolio. The most recent Capital Needs Assessment (CNA), completed in 2010, estimated the backlog of unmet need at approximately \$26 billion. According to the 2010 CNA, the backlog need has not increased significantly since the 1998 CNA. This is attributable in part to the shrinking size of the Public Housing inventory and in part to expenditures from Capital Fund grants to meet needs at properties. The projected annual accrual of needs across the inventory was estimated to be \$3.4 billion per year. The Capital Fund program has been successful at holding the aggregate condition of the inventory at a level consistent with the 1998 CNA to the extent it has been funded at levels enabling PHAs to meet annual need. However, there has been some unit loss and some increase to the total existing need resulting from the portion of the annual need that is unmet.

The Department has developed and is reviewing a Physical Needs Assessment tool that will collect information on capital needs and expenditures and will allow for aggregation of more precise data points. These data will be coupled with information collected through the Energy and Performance Information Center and will enable the Department to evaluate the program's effectiveness based on specific, empirical results. Once these data collection tools are fully implemented, the Department will have a much more thorough and comprehensive picture of the conditions of public housing properties and will be able to produce a more specific narrative regarding the impact of grants made through the Capital Fund program.

#### **The following are examples of how we know that the Public Housing Capital Fund program is working:**

##### The Capital Fund Increases Access to Affordable Housing Options

In fiscal year 2012, almost 5,000 units were developed, using a variety of resources, including Capital Fund grants. Replacement Housing Factor funds have been used in mixed-finance transactions. These transactions are reviewed, approved, and monitored by the Department. Construction through the mixed-finance process often leverages other resources, such as Low-Income Housing Tax Credits.

##### The Capital Fund Helps Protect the Value of the Existing Public Housing Stock

Public housing constitutes an economic and social asset that cannot be created or sustained by the private market. Replacing this inventory would be cost prohibitive. The Public Housing Capital Fund preserves as many of these units as possible to mitigate the heightened costs of replacement in the future. Capital Funds are essential to protecting the economic value of the Nation's public housing inventory and serving some of the most economically vulnerable families in the Nation. Furthermore, the Capital Fund enables PHAs to make energy efficient improvements to developments. In fiscal year 2012, the Capital Fund, through the use of Recovery Act funds, has been used by PHAs to make more than 15,000 units or unit equivalents more energy efficient.

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The Capital Fund has Created Thousands of Jobs. The annual Capital Fund Program creates many good-paying jobs in industries like construction because funds are restricted to capital purposes.

The Capital Fund Expenditures Contribute Significantly to Local Economies. Direct spending by PHAs on capital improvements, maintenance, and operations total approximately \$8.1 billion per year. This direct spending generates significant indirect economic activity in these communities.

The Capital Fund Helps PHAs Leverage Resources. As discussed earlier, the CFFP has been used to leverage more than \$6 billion of funding in 176 transactions. Additionally, Capital Funds have also been used to leverage other sources of funds to create public housing units. In fiscal years 2006 through 2011, \$1.1 billion in Capital Funds was invested in mixed-finance transactions to leverage \$3.6 billion in private and other public funding sources. A total of 99 PHAs closed 194 mixed-finance transactions during this 5-year period. These are significant accomplishments given the complexity of CFFP and mixed-finance transactions.

The Capital Fund Develops and Builds Green, Sustainable, and Accessible Communities. The Capital Fund enables PHAs to not only preserve and rehabilitate Public Housing units, but also to build energy- and cost-efficient Public Housing and to develop green and sustainable communities. Select examples are summarized below.

- **Denver Housing Authority (DHA).** At its South Lincoln Homes site, the DHA used Capital Funds as part of a multilayered, public-private redevelopment project involving an energy performance contract. The South Lincoln Homes high-rise is not only a transit-oriented development, but it also serves as an example of how to combine Capital Funds with other resources to achieve a high level of energy efficiency, lowering operating costs. The redevelopment is designed around the Leadership in Energy and Environment Design (LEED) Platinum designation and is estimated to yield an approximately 50 percent reduction in energy consumption.
- **The Housing Authority of the City of El Paso (HACEP).** HACEP set out on a mission to create a spectacular affordable housing development implementing the latest sustainable design practices. HACEP sought to establish a new paradigm for affordable housing development using bold, innovative, cutting-edge design. HACEP succeeded by developing a 73-unit elderly community designated LEED Platinum and Enterprise Green Communities certified. In fact, the Paisano Green Community generates as much energy on site as it consumes—making it the first net-zero energy public housing development in the country. The project achieves its net-zero status without burning any fossil fuels on site. Solar and wind energy power the site’s renewable energy systems to minimize the site’s carbon footprint.
- **Santa Fe Civic Housing Authority (SFCHA).** Just shy of downtown Santa Fe, New Mexico, Villa Alegre will stand as the city’s first LEED Platinum multifamily, affordable housing development. In fact, Villa Alegre will be only the second LEED Platinum affordable housing development in the State and the first in the State to be developed by a civic housing authority. The SFCHA estimates the project will create 40 percent of the energy it consumes. The site already has generated a

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significant number of jobs, with 150-plus workers on site every day. Along with Competition funds, the Authority utilized Low-Income Housing tax credits, the Tax Credit Assistance Program, and New Mexico Sustainable Building tax credits.

- **Chicago Housing Authority (CHA).** On Chicago's north side, a grand, old hotel sat in disrepair. CHA set out with the intent to renovate the building into a decent, safe, and energy efficient senior housing. Much of the original crown molding in the ballroom was still intact. CHA was able to preserve what existed and procure matching molding to fill out the room. The project involved many design challenges because the old hotel had been designed with irregularly shaped rooms—typical of the period. Additionally, the yard space between the building and the sidewalk was not big enough to drill as many holes as originally designed to support the geothermal system. CHA was able to find a company that specialized in drilling extra deep holes to make the design work.

### Program Improvements

The Next Generation Management System (NGMS) initiative is a departmentwide initiative designed to re-engineer current business models, processes, and IT infrastructure and operations across HUD's Rental Housing Assistance (RHA) programs, which include programs from the offices of Public and Indian Housing (PIH), Multifamily Housing (MFH), and Community Planning and Development (CPD). NGMS is intended to be a suite of robust technical tools designed to help HUD administer its rental assistance programs more efficiently, and bring the various work functions of these programs to modern standards, housed within a modern technical platform. This TI/IT initiative will fundamentally improve the business performance of HUD's rental assistance programs over several years. With modules in areas such as HUD operations, grantee operations, financial management, and business support, HUD's RHA business will become more fully refined and up-to-date with modern IT platforms and data architecture. Although HUD staff have maintained the ability to oversee and monitor RHA programs, as well as respond to requests for information, these processes are often exceedingly manual and inflexible to the demands of a data-driven government. NGMS will afford HUD staff, and eventually our grantees and other stakeholders, the ability to view data and information in operational real-time and to seamlessly integrate information from disparate data sources. Additionally, the implementation of NGMS improvements will allow for the reduction of errors in information and more efficiently inhibit the waste, fraud, and abuse of federal dollars. With better tools and better information, HUD staff and HUD grantees can become even more effective stewards of federal dollars and of rental assistance programs on which approximately 4.6 million families rely.

### Program Improvement Initiatives/Proposals

The Department's fiscal year 2014 Budget Request comes at a time of tightly constrained resources. In light of this funding environment, Public Housing Agencies (PHAs) have requested that HUD provide relief from various requirements related to the operation of PIH programs as well as greater flexibility in the use of PIH resources. The Department has undertaken a comprehensive review and evaluation of these requests to identify items that merit implementation. Enactment and achievement of proposed measures will generate cost savings to the Department; reduce the administrative burden on PHAs and provide them with

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flexibilities that will enhance their capacity to respond to local housing need; and/or promote program efficiencies at the PHA or HUD level. Several of the measures will also reward agencies that perform well.

Many of the items listed below were requested in HUD's fiscal year 2013 budget request. Other items proposed in the Department's fiscal year 2014 request represent new initiatives. Some of these initiatives are proposed in the general provisions while all others will be included in comprehensive legislation to be submitted to Congress in the spring of 2013. Major proposals that will affect the Public Housing Capital Fund will be presented as part of that proposed legislation are highlighted below:

- Replace PHA Annual Plans. For fiscal year 2014, the Department proposes to eliminate and replace the requirement that PHAs complete and submit PHA Annual Plans. This would reduce the burden on PHAs, while replacing it with meaningful planning processes for resident feedback, including the requirement that PHAs hold meetings with residents and the public related to significant changes to PHA policies and proposals of major activities, such as the demolition or disposition of public housing. This would be consistent with the enactment of Housing and Economic Recovery Act of 2007 (HERA), where the majority of PHAs are exempted from the annual plan requirement and in its place, required an annual hearing.
- Expand the Moving-to-Work (MTW) program. The Budget proposes a substantial expansion of the MTW program to high-capacity PHAs. In partnership with HUD, participating PHAs will design and implement innovative policies related to housing preservation, family self-sufficiency, cost-effectiveness and other priority areas. Key tenant protections will continue to apply and PHAs will be subject to rigorous reporting and evaluation requirements.
- Authorize Consolidated Opportunities for Resident Enrichment (CORE) flexibility. In this tight economic environment, it is critical that PHAs have flexibility in order to meet the needs of their resident communities. While it is necessary for HUD and PHAs to focus their resources on housing, it is also HUD's responsibility to ensure that public housing and Section 8 Housing Choice Voucher (HCV) families have access to the necessary resources that will help them become self-sufficient or, in the case of elderly or people with disabilities, to remain successfully housed. The best way to ensure that families remain successfully housed, and eventually become independent of Federal assistance, is to ensure that all public housing and Section 8 HCV residents are connected to the appropriate support systems in their communities. In order to provide PHAs with much needed flexibility so that they can use housing as a platform for improving the quality of life for their public housing and Section 8 HCV families, HUD is requesting authority for Consolidated Opportunities for Resident Enrichment (CORE)
- Provide operating/capital fund flexibility. The Department proposes to extend current statutory authority provided to agencies with fewer than 250 public housing units to all PHAs regardless of program size. Currently, only small agencies have the ability to use their public housing Operating and Capital funds interchangeably. Larger agencies are restricted to the eligible uses for each grant as established by the 1937 Housing Act, which limits their ability to use program resources to meet the varying local needs of their housing. For example, the 1937 Housing Act restricts the use of Operating funds for

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modernization to paying debt service, so a PHA with operating reserves must pay finance charges to use their available funds to make capital investments in their housing stock. All asset managers must prioritize their available resources against property needs. Unlike property managers operating any other real estate platform, PHAs operating the public housing program are limited in their ability to maximize their resources and to invest responsibly within their portfolio. The limitation against using Operating resources directly to modernize their housing stock represents an inefficient restriction on the use of limited government resources. In the face of a \$26 billion backlog in capital needs, PHAs need full flexibility to address the needs of their portfolio. A failure to invest in the public housing portfolio jeopardizes the long-term viability of these important affordable housing assets. Coupled with this proposal for increased flexibility, the Department is developing strategies to monitor more effectively how PHAs use their resources to address capital needs. For example, the Department can use audited financial statements to distinguish expenditures toward fixed assets, such as betterments and modernization, which extend the useful life of the housing stock. Using technology to triangulate capital investments, financial expenditures, and physical property scores has the potential to maximize how resources are being used within the program and to enable HUD to monitor the stewardship of public housing assets.

Public Housing Capital Fund

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

<u>Budget Activity</u>	<u>2012 Budget Authority</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2012 Obligations</u>	<u>2013 Annualized CR</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2014 Request</u>
Formula Grants .....	\$1,790,000	\$23,705	\$1,813,705	\$1,789,061	\$1,800,955	\$24,644	\$1,825,599	\$1,957,000
Emergency/Disaster Reserve .....	20,000	13,936	33,936	16,357	20,122	17,579	37,701	20,000
Resident Opportunities and Supportive Services .....	50,000	180	50,180	49,957	50,306	223	50,529	...
Administrative Receivership .....	5,000	12,438	17,438	2,901	5,031	14,537	19,568	...
Financial and Physical Assessment Support ...	10,000	21,352	31,352	13,442	10,061	17,910	27,971	8,000
Tenant Opportunity ....	...	168	168	...	...	168	168	...
Jobs-Plus .....	...	...	...	...	...	...	...	15,000
Technical Assistance ..	...	3,108	3,108	1,932	...	1,176	1,176	...
Capital Fund Training and Education Facilities .....	...	<u>6,759</u>	<u>6,759</u>	<u>6,515</u>	...	<u>244</u>	<u>244</u>	...
Total .....	1,875,000	81,646	1,956,646	1,880,165	1,886,475	76,481	1,962,956	2,000,000

## Public Housing Capital Fund

### **PUBLIC AND INDIAN HOUSING PUBLIC HOUSING CAPITAL FUND Appropriations Language**

Below is the italicized appropriations language for the Public Housing Capital Fund account.

*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 (42 U.S.C. 1437g) (the "Act") \$2,000,000,000, to remain available until September 30, 2017: Provided, That notwithstanding any other provision of law or regulation, during fiscal year 2014 the Secretary of Housing and Urban Development 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 up to \$8,000,000 shall be to support ongoing Public Housing Financial and Physical Assessment activities : Provided further, That of the total amount provided under this heading, not to exceed \$20,000,000 shall be available for the Secretary to make grants, notwithstanding section 204 of this Act, to public housing agencies for emergency capital needs resulting from unforeseen or unpreventable emergencies and natural disasters excluding Presidentially declared emergencies and natural disasters under the Robert T. Stafford Disaster Relief and Emergency Act (42 U.S.C. 5121 et seq.) occurring in fiscal year 2014: Provided further, That from the funds made available under this heading, the Secretary shall provide bonus awards in fiscal year 2014 to public housing agencies that are designated high performers: Provided further, That up to \$15,000,000 of funds made available under this heading shall be used for a Jobs-Plus Pilot initiative modeled after the Jobs-Plus demonstration: Provided further, That the Jobs-Plus Pilot initiative shall provide competitive grants to partnerships between public housing authorities, local workforce investment boards established under section 117 of the Workforce Investment Act of 1998, and other agencies and organizations that provide support to help public housing residents obtain employment and increase earnings: Provided further, That the Secretary may waive or specify alternative requirements for any provision of the United States Housing Act of 1937 (except for requirements related to fair housing, nondiscrimination, labor standards, and the environment) upon a finding by the Secretary that any such waivers or alternative requirements are necessary for the effective implementation of the Jobs-Plus Pilot initiative: Provided further, That the Secretary shall publish by notice in the Federal Register any waivers or alternative requirements pursuant to the preceding proviso no later than 10 days before the effective date of such notice.*

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.