PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
2015 Summary Statement and Initiatives
(Dollars in Thousands)

PUBLIC HOUSING CAPITAL FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2013 Appropriation	$1,875,000	$81,979[a]	-$98,074	$1,858,905	$1,775,853	$2,139,822
2014 Appropriation/Request	1,875,000	83,006	...	1,958,006[b]	1,957,000	2,021,000
2015 Request	1,925,000[c]	...	...	1,925,000	1,879,000	2,231,000
Program Improvements/Offsets	+50,000	-83,006	...	-33,006	-78,000	+210,000

a/ Carryover includes $86.5 million in actual carryover and $12 million in recaptures realized in fiscal year 2013. Excludes $16.5 million that was returned to the Treasury and was unavailable as a resource. This also excludes $1.2 million that were de-obligated, not recaptured nor available for reapportionment
b/ Includes an estimated $582 thousand transfer from the Public Housing Capital Fund for implementation of the Rental Assistance Demonstration (RAD).
c/ Includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent or $15 million, whichever is less, of Budget Authority; and an estimated $35.1 million transfer for implementation of RAD.

1. What is this request?

The Department requests $1.925 billion for the Public Housing Capital Fund, which is an increase of $50 million over the fiscal year 2014 enacted level. This request is comprised of:

- $1.822 billion for Public Housing Capital Fund grants, the primary source of funding for public housing rehabilitation and development (this amount is net of estimated TI and RAD transfers);
- $25 million for the Jobs-Plus Pilot Initiative, an evidence-based strategy for increasing the employment opportunities and earnings of public housing residents;
- $20 million for the Emergency and Disaster Reserve, which resolves capital needs arising from unforeseen emergency situations or non-Presidentially declared natural disasters;
- $8 million for Financial and Physical Assessment Support, which funds financial and physical assessment for rental housing assistance programs; and
- $5 million to support the costs of administrative and judicial receiverships. These funds will allow the Department to provide technical assistance that will assist recovering Public Housing Agencies (PHAs) by supporting operational expenses related to the administration of receiverships.

Public Housing Capital Fund

Effective administration of the Public Housing Capital Fund is dependent on the operating resources requested in the Salaries and Expenses justification. For fiscal year 2015, $38.8 million is requested to operate this program account, an increase of $0.2 million. The following is a breakout of Salaries and Expenses for the Capital Fund:

Personnel Services – $37.7 million.
Non-Personnel Services – $1.1 million.
FTE – 279

PIH has 12 functional areas to which employees devote their time. The primary functions to which PIH employees report in support of the Capital Fund program include but are not limited to Public Housing Modernization, Development & Repositioning; Public Housing Operations & Monitoring; Resource Formulation, Allocation and Financial Management; and Financial & Physical Program Integrity.

Key outcomes of the Capital Fund program are:

- increasing occupancy in public housing;
- decreasing energy costs; and
- leveraging federal resources.

Legislative Proposal Summaries

- full fungibility of Operating and Capital funds

2. **What is this program?**

The Public Housing Capital Fund 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 households 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. Of the amount requested for fiscal year 2015, approximately $1.822 billion will fund Public Housing Capital Fund grants.

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, which was created through negotiated rulemaking and is codified at 24

Public Housing Capital Fund

C.F.R. § 905. Newly implemented program regulations, consolidating legacy rules from predecessor programs scattered throughout Title 24 of the Code of Federal Regulations and legislative changes subsequently enacted, are also codified at 24 C.F.R. § 905.

Eligible uses of Capital Fund formula grants include the following:

- development, financing, and rehabilitation activities, 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
- debt service that may have been incurred to finance the rehabilitation and development of public housing units.

<u>Accessing Private Capital</u>. 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 implement 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 properties' capital backlog and to 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.

Public Housing Capital Fund

The viability of both RAD and CFFP depend upon adequate funding of the Capital Fund program. Conversion rents for PHA participants in RAD are based on current funding. A reduction in current funding may impede conversions under RAD. 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. 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 almost all PHA CFFP bonds rated by credit rating agencies. The credit rating agencies have issued negative outlooks on all outstanding CFFP bonds. As a result, PHAs wishing to enter into new transactions have faced increased interest rates and decreased expectations for future funding levels in the underwriting process, resulting in lessened proceeds compared to those that could have been raised at historical funding levels.

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 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." This statutory language 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 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.

Job-Plus Pilot Initiative. The Department requests $25 million in Capital Funds to implement the Jobs-Plus Community Revitalization Initiative for Public Housing Families, an evidence-based strategy for increasing the employment opportunities and earnings of public housing residents through a three-pronged program of employment services, rent-based work incentives, and community support for work. This proven model and approach offers PHAs the additional resources needed to focus intensively on employment-related activities and incentives intended to assure that residents retain more of what they earn. The Jobs-Plus program was piloted successfully starting in 1996. This place-based "saturation" model aims to change the employment outcomes for an entire development. It expands on the Family Self-Sufficiency program by adding funding to support a partnership with the local Workforce Investment Board and other partnerships, as well as funding to hire residents to do outreach for the "community support for work" aspect of the program. In addition, the rent-incentive may be a modification of the standard Earned Income Disregard, which will allow an opportunity to test a new incentive model.

Opportunity, Growth, and Security Initiative. The Budget also includes a separate, fully paid for $56 billion Opportunity, Growth, and Security Initiative. The Opportunity, Growth, and Security Initiative, which will be split evenly between defense and non-defense funding, shows how additional discretionary investments in 2015 can spur economic progress, promote opportunity, and strengthen national security.

The Opportunity, Growth, and Security Initiative is fully paid for with a balanced package of spending cuts and tax loophole closers, showing that additional pro-growth investments are easily affordable without increasing the deficit if Congress will enact common-sense spending and tax reforms.

At HUD, the Opportunity, Growth, and Security Initiative would add an additional $125 million to further expand the Jobs-Plus Pilot Initiative to assist a total of 50,000 public housing residents to secure employment and increase their earnings. This is part of a comprehensive inter-agency effort to increase economic mobility support for vulnerable populations.

Other Uses of Funding. The remainder of the fiscal year 2015 request, $33 million, is proposed to fund the Emergency and Natural Disaster Reserve, Financial and Physical Assessment Support, and Administrative and Judicial Receiverships, as described below:

- Emergency and Natural Disaster Reserve. The Department requests up to $20 million to be set aside in a reserve to make grants to PHAs for capital needs arising from unforeseen emergency situations or non-Presidentially declared natural disasters. PHAs that suffer damage as a result of Presidentially 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 requests $8 million to support financial and physical assessment support for rental housing assistance programs. Assessment activities are primarily performed by the Real Estate Assessment Center (REAC), which provides the Offices of Housing and Public and Indian Housing with timely and accurate assessments of HUD's assisted real estate portfolio using physical and financial assessments. The table below, which includes the fiscal year 2015 request, represents the Department's active plan for Financial and Physical Assessment Support for Rental Housing Assistance programs. As of February 2014, the Department has reserved $3.4 million for pending contracts that will be obligated once awarded.

Financial and Physical Assessments Obligations by Fiscal Year	2012 (Actual)	2013 (Actual)	2014 (Est.)	2015 (Est.)
Physical Assessments	$7,900,190	$4,163,535	$9,939,274	$9,130,301
Financial Assessments	$1,859,154	$1,002,747	$3,202,116	$3,202,116
Program Support	$3,683,031	$3,411,372	$5,391,081	$3,944,129
Total	**$13,442,375**	**$8,577,654**	**$18,532,471**	**$16,276,546**

Financial and Physical Assessments BA, Obligations, & Balances by Source Year

Fiscal Year Approp	Total Approp	Funds Obligated through FY 2013	FY14 Carryover	FY14 Projected Obligated Funds	FY 15 Projected Carryover
2011-2014	$15,314,310	$12,198,316	$3,115,994	$3,115,994	$0
2012-2015	$10,000,000	$3,498,614	$6,501,386	$6,501,386	$0
2013-2016	$9,476,940	$285,408	$9,191,532	$8,915,091	$276,441
Total	**$34,791,250**	**$15,982,338**	**$18,808,912**	**$18,532,471**	**$276,441**

- Financial Assessment: The 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 public housing units. In addition to assessing public housing agencies' financial health, FASS-PH conducts various analyses to aid in improving public housing agencies' financial outlook by identifying risks to be appropriately addressed and mitigated in a timely manner. Financial assessments assist HUD in determining and distinguishing between public housing agencies that are financially stable and in compliance with program requirements from those that represent a degree of unacceptable risk to HUD.

FASS-PH assesses PHAs using ratios that measure liquidity, viability to operate, and the ability of a property to meet its debt obligations. In addition, FASS-PH receives comments provided by agencies' independent financial auditors. FASS-PH provides REAC with a complete database of PHAs' financial data to enable the Offices of Housing and Public and Indian Housing managers and decision-makers to determine where their customer support, assistance, and recovery assets are most needed.

- Physical Assessment: REAC's Physical Assessment Subsystem (PASS) manages the physical assessment protocols required to evaluate the overall physical condition of Public Housing and Multifamily Housing properties that receive rental assistance or are insured by the Federal Housing Administration mortgage insurance program. REAC is responsible for performing physical assessments and inspections of approximately 7,200 public housing properties and 30,000 multifamily housing properties.

  Public housing and multifamily housing properties are inspected using a risk-based approach. Properties that score 90 – 100 are inspected every 3 years. Properties that score 80 – 89 are inspected every other year, and properties that score 79 and below are inspected annually. All properties in which HUD has a financial interest, such as those mentioned above, are included in REAC's physical inspection portfolio. Currently the primary vehicle for conducting physical inspections is the Reverse Auction in which contractors bid on properties through the web-hosted auction vendor. The successful contractor is the contractor with the lowest bid.

  All properties requiring an inspection in accordance to the risk-based property inspection schedule described above are inspected by a Reverse Auction contractor; however, unfortunately not all properties receive a bid in the Reverse Auction. REAC is in the process of improving the inspection process by establishing a non-Reverse Auction contract that will procure inspectors to inspect all properties that do not receive a bid in the Reverse Auction Program. This will enable REAC to not have to heavily rely on its quality assurance HUD inspectors to perform physical inspections that should be done by a contractor/vendor. In turn, this improvement will also strengthen the physical inspection program by allowing REAC's smaller cadre of quality assurance inspectors to refocus their energy on on-site quality assurance inspections of the work performed by contract inspectors with the objective of ensuring that REAC's physical inspections are performed to standard.

  All contract inspectors are certified in the use of HUD's Uniform Physical Condition Standard (UPCS) inspection protocol, which is the primary inspection protocol vehicle for determining a property's physical condition. PASS coordinates the procurement of inspections, ensures appropriate inspection scheduling, provides a property-specific on-line inspection report of the inspection results through HUD's on-line Secure Systems, and provides in-house quality assurance reviews on 100 percent of properties inspected as an additional quality assurance measure. PASS also arranges for correction and re-inspection of property inspections that are determined, through the quality assurance process, to be outside of standard, incomplete, or deficient. All inspection report results are objectively scored within the REAC PASS IT system. All properties that are inspected are afforded an opportunity to submit a technical review or database adjustment (appeal) if the property's management believes that an error was made during the inspection or that local building code allows for variances that are not specifically addressed within the UPCS protocol.

REAC is required to add photo capability to physical inspections and is in the process of adding photo capability to its PASS-IT system. Photo capability will increase the effectiveness of conducting inspections. All inspectors will be required to capture photos of certain deficiencies during the physical inspection. This will further improve the inspection process and decrease the need for a property to appeal deficiencies captured during an inspection. Capturing photos during an inspection will require more time for contract inspectors to conduct inspections, which will no doubt be reflected in an increased cost for each contractor performed inspection.

The increased cost is reflected in the "actual" vs. "estimated" when comparing the fiscal year 2013 physical inspection to 2014 and 2015 cost figures above. Also, the 2014 and 2015 fiscal year figures reflect that REAC will conduct more inspections during these 2 years and going forward.

REAC is in the process of implementing the White House Physical Inspection Alignment within its inspection portfolio, which will reduce the number of duplicative physical inspections performed by other federal agencies such as USDA, IRS, Treasury, and state and local government entities. This will significantly increase physical inspection efficiency. REAC is also taking progressive measures in order to be responsive to the growing emphasis on providing timely and accurate property physical assessments, which are indicators of tenants' living conditions. This will ensure that REAC's current clients, and its soon-to-be White House Physical Inspection Alignment clients' leaders can make important management and funding decisions to ensure that appropriate oversight and accountability are firmly rooted within their housing assistance programs.

- <u>Program Support</u>: REAC also verifies the accuracy of reported resident income via the Enterprise Income Verification system to ensure that housing subsidies are paid accurately by managing a series of computer income matching procedures on residents living in HUD housing with the Social Security Administration and the Department of Health and Human Services. Income matching discrepancies are made available to the appropriate multifamily, public housing, and Housing Choice Voucher housing entity. The housing entity's management resolves each income discrepancy appropriately. The increase in program support in spending in 2014 from 2013 of $2 million reflects an increase associated with expiring contracts. Additionally, a portion of the increase is for further refinement of national risk assessment tools.

- PHA Intervention: Based on the financial and physical assessments conducted through the FASS-PH and PASS and the use of that data to identify at-risk and troubled PHAs, REAC and the Office of Field Operations work collaboratively to identify those PHAs requiring targeted interventions based on the National Risk Assessment, which relies on the data provided from the FASS-PH and PASS subsystems.

- Administrative and Judicial Receiverships. The Department is requesting $5 million to support the costs of administrative and judicial receiverships. These funds will allow the Department to provide technical assistance that will assist recovering PHAs by supporting operational expenses related to the administration of receiverships.

The Office of Public and Indian Housing is in the process of developing and implementing a comprehensive national risk assessment tool and risk mitigation strategy to facilitate the early detection of problems, target intervention and improve oversight at both the entity and property level. The National Risk Assessment tool combines data points from existing HUD systems with a qualitative staff survey completed by public housing field staff to determine the level of risk at a PHA.

While the Department's enhanced oversight tools and early intervention will help prevent severe performance issues and ensure sustainable recovery in most instances, it will not necessarily prevent receiverships from occurring.

The Department enters into an administrative receivership when a PHA has systemic, long-standing, and severe issues that require extraordinary levels of expertise and resources to recover performance and improve the quality of life for PHA residents. There are also receivership cases where the PHA is in substantial default of the statute or the Annual Contributions Contract and HUD must take over. For example, the local PIH field office's due diligence in oversight and monitoring led to the discovery of default at the Cocoa Housing Authority, which was received in fiscal year 2013 and was already returned to local control during the first quarter of fiscal year 2014. Where local governance and accountability fails, and PIH identifies issues that have or will affect PHA performance based on PIH's risk assessments, some PHAs warrant receivership.

Technical assistance to PHAs in receivership has been provided in many forms by both HUD staff and contractors. Generally, based on the PHA's specific needs and circumstances, technical assistance support has been focused in six major areas: Governance, Financial, Systems and Management, General Management, Section 8 Voucher program and Asset Management. It has been determined that external providers can be very effective in providing on-site, specialized technical and expediting successful recovery of these PHAs. Technical assistance is critical to a receivership PHA's timely and successful rehabilitation, and is provided as appropriate by HUD staff or contractors since HUD's internal staffing resources available for receivership support are limited by regular program responsibilities, and other Departmental and PIH-wide initiatives.

The funds requested for 2015 will support efforts to recover PHAs new to receivership, which are resource intensive because a comprehensive assessment; recovery plan development; and technical assistance and support staff to manage such operations are required. Carryover balances aid the Department's ability to rapidly respond to the changing receivership environment, including to new receiverships. Given the nature of the investment required to recover and sustain receivership PHAs, it is imperative that these funds be available and for current and future receiverships.

It is important to note that in addition to the known need associated with PHAs currently in receivership, and despite the Department's best efforts to proactively assess PHA risk, there is potential for additional PHAs to enter receivership (the number and timing of which is difficult to predict). Below is a breakdown of recent and projected technical assistance engagements.

Administrative and Judicial Receiverships Obligations by Fiscal Year			
	2012 (Actual)	**2013 (Actual)**	**2014 (Est.)**
Virgin Island HA Dev. Services & Oversight		$1,377,876	
HANO Administrative Receivership	$1,842,253	$914,668	$457,289
Virgin Island HA Technical Assistance *w/option*	$1,058,399		$750,000
Lafayette City PHA			$352,039
Detroit Housing Commission Technical Assistance *w/option*		$455,805	$843,288
Gary Housing Authority Recovery Administration and TA			$4,800,000
East St. Louis Information Technology TA awarded through OneCPD Plus NOFA Cooperative Agreement			$119,201
Development of a Receivership Guidebook AND training Series for Receivers and Boards awarded through OneCPD Plus Cooperative Agreement			$1,000,000
OneCPD Plus Technical Assistance NOFA (remaining obligation not yet assigned to PHAs)			$1,000,000
Total	**$2,900,652**	**$2,748,349**	**$9,321,817**

Administrative Judicial Receiverships BA, Obligations, & Balances by Source Year

Total Appropriations	FY 2013 Obligated Funds	FY 2014 Carryover	FY 2014 Projected Obligated Funds	FY 2015 Projected Carryover
$8,802,360	$2,014,140	$6,788,220	$6,788,220	-
$5,000,000	-	$5,000,000	$2,533,597	$2,466,403
$4,738,470	-	$4,738,470	-	$4,738,470
$18,540,830	**$2,014,140**	**$16,526,690**	**$9,321,817**	**$7,204,873**

The Department is in the process of executing contacts and cooperative agreements for technical assistance to PHAs presently in receivership, thereby reducing balances of funding provided for receivership in prior fiscal years. In addition, the Department did not request funding in fiscal year 2014 due to carryover balances. The following points explain the rationale and use for the current balances:

- Historically, HUD used its own staffing resources to build capacity at PHAs under receivership, but is transitioning more fully to a model that uses external technical assistance (TA) providers because of constrained HUD staff resources.
- Similar to fiscal year 2013 with PIH's participation in the OneCPD Plus NOFA, HUD will competitively select and award cooperative agreements to TA providers in fiscal year 2014 to ensure qualified and experienced providers are able to begin work in a demand-response model that is effective and timely. PIH is currently working with CPD and Multifamily on the fiscal year 2014 Notice of Funding Availability (NOFA). The technical assistance provided under this model may include, but is not limited to, asset repositioning, direct recovery administration, assistance with program operations, internal controls, and development.
- The Department is currently moving forward with approximately $9.3 million in cooperative agreement award and contract actions for technical assistance at several PHAs for development, asset repositioning, financial management services and training.
- The Department received the Gary Housing Authority in July 2013 and expects to procure approximately $4.8 million in technical assistance contracts to support recovery.

- The Department is also in the process of engaging a technical assistance provider to support the development of a guidebook and training series for receivers and boards that will better equip those charged with improving conditions at PHAs.
- These types of technical assistance interventions have resulted in enhanced PHA performance and the Department expects four current receiverships (Detroit Housing Commission, Housing Authority of New Orleans, Virgin Islands Housing Authority, and East Saint Louis) to transition back to local control in fiscal year 2014 as a result of these investments.

Rental Assistance Demonstration

The Department continues its Rental Assistance Demonstration (RAD) to test new preservation tools for the HUD-assisted housing stock. It 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 2015 Operating Fund and Capital Fund appropriations to the Tenant-Based Rental Assistance (TBRA) or Project-Based Rental Assistance (PBRA) accounts to fund renewal costs for public housing units converting under RAD in calendar year 2014.

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

In August 2013, HUD released 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 43.5 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 their monthly incomes in rent, lived in substandard conditions, or both. 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. Public housing is one of the few options for many of the nation's lowest-income families and helps prevent them from slipping into homelessness. Although demographic changes and the state of the economy have contributed through increased demand, the main factor in the increase in worst-case housing needs is the lack of affordable housing. In the short term, investment in affordable housing resources can more effectively mitigate the gap than strategies to shrink demand. Increased demand and static or shrinking supply have resulted in wait times for housing assistance that are 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; some as early as 1936. As a result, these units require significant rehabilitation work to bring them into a condition that is safe, decent, and sustainable. 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 existing public housing inventory while also rehabilitating or replacing distressed units. Without investment in the inventory through the Capital Fund program at the requested level, the loss of affordable housing units due to obsolescence and disrepair will accelerate.

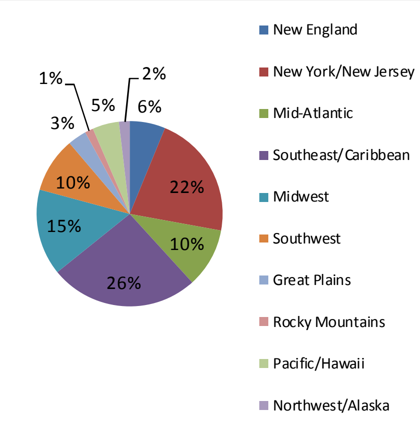
The Capital Fund is essential to achieving this Administration's goals related to increasing occupancy in public housing, decreasing energy costs, and leveraging federal resources.

- Increasing occupancy in public housing. The Strategic Objective regarding rental housing alignment addresses this issue by encouraging HUD programs to meet more of the growing need for affordable rental homes by increasing the number of families served through HUD rental assistance. HUD exceeded its fiscal year 2013 Agency Priority Goal of 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 preserving the availability of quality affordable rental housing in order to provide a stable platform for low-wage families to improve their lives, preventing homelessness and reducing worst-case housing needs. During fiscal years 2012 and 2013, approximately 10,000 additional public housing units were occupied, due in part to physical improvements made through Capital Fund programs. The fiscal year 2015 request is expected to enable HUD to continue providing housing resources for the additional families to whom access had been expanded in earlier years.
- Decreasing energy costs. As part of the Administration's climate plan, 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 2013, through Q4, the Capital Fund contributed to achieving this goal by enabling PHAs to make more than 7,646 units and unit equivalents more energy efficient, and an additional 976 newly developed green units.
- Leveraging federal resources. Given the current federal fiscal environment, PHAs cannot meet needs by using federal funds only and must leverage outside investment. One of the programs created to achieve this purpose is the CFFP. HUD has approved approximately 182 transactions involving 245 PHAs through the CFFP and other alternative financing programs. The total amount of loan and bond financing approved to date is approximately $4.5 billion, benefiting approximately 85,000 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 Capital Fund program is the only source of federal funding dedicated to addressing the rehabilitation and development needs of the public housing inventory. These funds contribute to the preservation of this public asset and the continued availability of housing to some of the nation's most economically vulnerable populations (as shown below).

Public Housing Tenant Characteristics 2013

Regional Breakdown



Families with Children

40%

Female Headed Households

75%

Disabled Households

27%

Elderly Households

31%

Family Size

1 Person	46%
2 Persons	21%
3 Persons	15%
4 Persons	10%
5 Persons	5%
6 Persons	2%
7 Persons	1%
8+ Persons	0%

Average Family Size

2.2

Ethnicity Characteristics

Hispanic	24%
Non-Hispanic	76%

HoH Race Characteristics***

White Only	51%
Black Only	45%
American Indian / Native American	1%
Asian	2%
Mix/Unknown	1%

Income Status****

Extremely Low Income (≤30% AMI)	69%
Very Low Income (≤50% AMI)	20%
Low Income (≤80% AMI)	8%
Above Low Income (>80% AMI)	3%

Any Income from Wages**

33%

Average Tenant Contribution

$233

Average Gross Income

$13,827

Source: 2013 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
Average Tenant Contribution is Operating Fund actual formula income per unit month for 2013

4. How do we know this program works?

The most recent Capital Needs Assessment (CNA), completed in 2010, estimated the backlog of unmet public housing capital 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 is estimated to be at least $3.4 billion per year on average over the next 20 years. 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 unit loss and an increase to the total existing need resulting from the portion of the annual need that is unmet.

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

<u>The Capital Fund Increases Access to Affordable Housing Options</u>

In fiscal year 2013, 2,472 public housing 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 Credit equity investment.

These units were partially offset by removals from the inventory, but the total number of occupied units increased by approximately 10,000 units in fiscal years 2012 and 2013 through both the development of new units and the rehabilitation of previously unoccupied units.

<u>The Capital Fund Helps Protect the Value of the Existing Public Housing Stock</u>

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 to 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 2013, the Capital Fund was used by PHAs to make more than 7,646 units and unit equivalents more energy efficient, including 976 newly developed green units.

<u>The Capital Fund has Created Thousands of Jobs</u>. The annual Capital Fund Program creates many good-paying jobs in industries like construction. These direct jobs create many indirect jobs as the dollars are spent in the local community.

Capital Fund Expenditures Contribute Significantly to Local Economies. Direct spending by PHAs on capital improvements, maintenance, and operations total approximately $6.5 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 $4.5 billion of funding in 182 transactions. Additionally, Capital Funds have also been used to leverage other sources of funds to create public housing units. In fiscal years 2006 through 2013, $2.6 billion in Capital Funds were invested in mixed-finance transactions to leverage $10.8 billion in private and other public funding sources. A total of 163 PHAs closed 773 mixed-finance transactions during this 7-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.

- **North Tarrytown (NY) Housing Authority ("NTHA").** Two 30-year-old oil-fired boilers at the NTHA were literally burning through the agency's reserves. With replacement parts increasingly hard to find and heating bills that were cutting into the maintenance budget, the NTHA turned to HUD for assistance. Field Office staff suggested leveraging Capital Funds in conjunction with the Weatherization Assistance Program, a joint effort between HUD and the Department of Energy to make energy efficient investments in multi-family buildings. After reevaluating the planned uses for their 2011 and 2012 Capital Fund Program grants to come up with $120,000 in matching funds, the NTHA replaced both obsolete units with new energy efficient dual fuel boilers and a separate summer hot water heater. The total value of the improvements made was over $400,000, and the annual savings are expected to give NTHA sufficient budget relief to improve its properties to obtain a physical assessment score above substandard.

- **Housing Authority of the City of Decatur (GA) ("DHA").** DHA completed the $28 million, three-phase revitalization of the Allen Wilson public housing community in late 2013. Phase I consisted of 40 family units financed through the use of Capital Funds, a Capital Fund Financing Program ("CFFP") Loan, Low-Income Housing Tax Credits ("LIHTC"), and bonds in a mixed finance transaction. Phase II consisted of 80 senior units financed through the use of Capital Funds, Operating Fund Financing Program proceeds, and LIHTC in a mixed finance transaction. Phase II was awarded the EarthCraft Multifamily Project of the Year award in 2012 for the extensive energy features, including: a photovoltaic solar power generation system; geo-thermal heating and cooling systems in the common areas coupled with geo-thermal water heating for the entire building; rainwater harvesting for toilet flushing and landscape irrigation; Energy Star Appliances; high efficiency HVAC in each unit; and spray foam insulation in all walls and attic spaces. Phase III consisted of 71 units of family housing financed through Capital Funds, a CFFP Loan using Replacement Housing Factor Funds, and LIHTC.

Public Housing Capital Fund

- **The Housing Authority of the County of Los Angeles (CA) ("HACoLA")**. HACoLA made energy efficiency upgrades at the Nueva Maravilla public housing development in East Los Angeles. The original Nueva Maravilla public housing development was built in the late 1930's and re-built in the 1970's when concepts of energy and water conservation were not incorporated into building design. HACoLA used a combination of Federal funds, grants, and rebates to install solar panels, energy efficient exterior lighting, condensing water heaters, solar thermal water heaters, plumbing fixtures, and xeriscaping measures. The electrical master meter was also replaced with individual meters in each of the family units. The sustainable upgrades at Maravilla have saved HACoLA over $300,000 in electricity, natural gas, and water costs in the first year alone and will save over $5 million dollars in the next 15 years. As a result, HACoLA intends to continue similar upgrades at its other housing developments

Program Improvements

The fiscal year 2015 IT plans will require funding from both the Subsidies Management and Controls and Oversight segments in order to support the Capital Fund account, and thereby the Public Housing program.

Subsidies Management Segment

Next Generation Management System (NGMS)
The Next Generation Management System (NGMS) is a business-driven investment whose aim is to enhance HUD's affordable housing (AH) program management, improve end user satisfaction, streamline complex business processes, and integrate disparate Information Technology (IT) systems into a common, modernized platform. These goals will help improve the agency's ability to accurately quantify budgetary data resources, measure program effectiveness, and scrupulously justify the agency's budget formulations and requests.

By aligning current and future AH processes, HUD aims to simplify business operations and maximize investment returns with business-driven, service-oriented solutions that employ shared and standardized technology. NGMS will provide an integrated, seamless and singular view of financial and program data used to make real-time business decisions, but are currently warehoused in disparate data sources. The modernization of affordable housing program data through NGMS will provide HUD executives, Congressional authorizers and appropriators, OMB, public housing agencies, and other stakeholders an enhanced view of HUD's financial accountability.

With NGMS' accurate financial data and automated processes, HUD personnel will be able to reduce improper payment errors by identifying operating costs, reserves, and subsidy payment anomalies. Once implemented, NGMS will provide staff with a new set of monitoring, oversight and analysis tools to ensure that allocated federal funds are used efficiently to assist affordable housing participants.

Public Housing Capital Fund

NGMS will build project modules across four dimensions:

(1) HUD Operations - creating a single point of access to data and key information to reduce HUD s administrative burden;

(2) Financial management - developing an automated and more accurate process of budget formulation based on real-time data to reduce errors in budget forecasting;

(3) Partner Operations - providing HUD partners with a single point of access to data that will allow them to better serve their customers and operate more efficiently; and

(4) Business support - expanding the access and use of the NGMS IT advancements to the HUD enterprise level.

Controls and Oversight Segment

This segment invests in a number of business functions that supports the three major Departmental housing assistance programs, as well as migrating to conform to the Department's Master Data Management initiative. This includes five primary business functions: (1) the Assessment of Low Rent PHAs; (2) Tenant Income Verification; (3) Assessment of Section 8 PHAs; (4) Assessment of Multi-Family properties; and (5) High Risk Auditors. Within each of these business functions there are a number of applications that directly support the operations and oversight of the Department's housing assistance programs. This includes but is not limited to the following applications: the Financial, Physical, and Management Systems, which provide the Department with the ability to assess the effectiveness of housing assistance programs; as well as the Enterprise Income Verification System, which provides the ability to ensure the residents are receiving the correct level of housing assistance. Funding for this segment is critical as it allows all stakeholders to have access to information they need in order to properly administer, oversee and account for the operations of the Public Housing, Housing Choice Voucher, and Multifamily programs.

<u>Cross-Program Improvement Initiatives</u>

The Department's fiscal year 2015 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 implementation of proposed measures will generate a cost savings to the Department; reduce the administrative burden on PHAs and provide them with 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.

5. Legislative Proposals

Proposals included in the 2015 Request

- Provide operating/capital fund flexibility. The 2015 Budget 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 PHAs are restricted to using funds from Capital Fund and Operating Fund grants for the prescribed eligible uses of §§ 9(d) and (e), respectively, of the 1937 Act irrespective of the nature of an individual PHA's needs, except that they may use up to 20 percent of their annual capital grants for eligible Operating Fund expenses. Specifically, the 1937 Act limits the use of Operating Funds for capital improvements to only paying debt service rather than for direct expenditure on the capital improvements, even when available Operating Funds are sufficient to meet the need. As a result, PHAs must pay financing charges to use existing funds for modernization and development of the housing stock. Typically, these transactions are fully collateralized with on-hand operating reserves, meaning the PHA is effectively paying the financing fees and incurring a liability simply to access funds HUD has already awarded to it—a very inefficient use of federal resources. Property owners must prioritize their use of resources against needed capital investments, but only those operating public housing are limited in their ability to maximize resources to invest responsibly within their portfolio. With a $26 billion backlog in capital needs, PHAs need greater flexibility to address as much need as possible with the limited resources available.

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

Budget Activity	2013 Budget Authority	2012 Carryover Into 2013	2013 Total Resources	2013 Obligations	2014 Budget Authority/ Request	2013 Carryover Into 2014	2014 Total Resources	2015 Request
Formula Grants	$1,696,372	$29,538	$1,725,910	$1,705,415	$1,786,418	$20,495	$1,806,913	$1,831,865
Emergency/Disaster Reserve	18,954	16,820	35,774	27,323	20,000	8,451	28,451	20,000
Resident Opportunities and Supportive Services	47,385	558	47,943	30,549	45,000	17,394	62,394	...
Administrative Receivership	4,738	14,537	19,275	2,748	...	16,527	16,527	5,000
Financial and Physical Assessment Support ...	9,477	17,910	27,387	8,578	8,000	18,809	26,809	8,000
Tenant Opportunity	...	...	...	...	...	...	...	...
Jobs-Plus	...	...	...	...	15,000	...	15,000	25,000
Technical Assistance ..	...	2,616	2,616	1,240	...	1,330	1,330	...
Capital Fund Training and Education Facilities	...	...	...	...	...	...	...	...
Rental Assistance Demonstration (transfer)	...	...	...	...	582	...	582	35,135
Transformation Initiative (transfer)	...	...	...	...	...	...	...	[9,625]
Total	1,776,926	81,979	1,858,905	1,775,853	1,875,000	83,006	1,958,006	1,925,000

NOTES:
The Rental Assistance Demonstration transfers reflected are the estimated amounts needed in FY 2014 and 2015 to support public housing properties converting to the Section 8 platform in either the Tenant-Based or Project-Based Rental Assistance accounts in the first full-year following conversion. In the second full-year following conversion, those properties' units will be picked up as part of the Tenant-Based or Project-Based renewal formulas.

PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
Appropriations Language

The fiscal year 2015 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

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") **[**$1,875,000,000**]** *$1,925,000,000*, to remain available until September 30, **[**2017**]** *2018*: *Provided*, That notwithstanding any other provision of law or regulation, during fiscal year **[**2014**]** *2015* 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 up to $5,000,000 shall be to support the costs of administrative and judicial receiverships*: *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 **[**including safety and security measures necessary to address crime and drug-related activity as well as 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**]** *2015*: **[***Provided further*, That of the total amount provided under this heading $45,000,000 shall be for supportive services, service coordinator and congregate services as authorized by section 34 of the Act (42 U.S.C. 1437z-6) and the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4101 et seq.):**]** *Provided further*, That of the total amount made available under this heading, up to **[**$15,000,000**]** *$25,000,000* may be used for incentives as part of a Jobs-Plus Pilot initiative modeled after the Jobs- Plus demonstration: *Provided further*, That the funding provided under the previous proviso 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 applicants must demonstrate the ability to provide services to residents, partner with workforce investment boards, and leverage service dollars: **[***Provided further*, That the Secretary may set aside a portion of the funds provided for the Resident Opportunity and Self-Sufficiency program to support the services element of the Jobs-Plus Pilot initiative:**]** *Provided further*, That the Secretary may allow PHAs to request exemptions from rent and income limitation requirements under sections 3 and 6 of the United States Housing Act of 1937 as necessary to implement the Jobs-Plus program, on such terms and conditions as the Secretary may approve 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 as a voluntary program for residents: *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: *Provided further*, That from the funds made available under this heading, the Secretary shall provide bonus awards in fiscal year **[**2014**]** *2015* to public housing agencies that are designated high performers. *(Department of Housing and Urban Development Appropriations Act, 2014.)*