

**PUBLIC AND INDIAN HOUSING
PUBLIC HOUSING CAPITAL FUND
2016 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>
2014 Appropriation	\$1,875,000 ^a	\$83,006	...	\$1,958,006	\$1,861,112	\$2,149,052
2015 Appropriation	1,875,000 ^b	100,947 ^c	...	1,975,947	1,875,000	1,783,000
2016 Request	<u>1,970,000^d</u>	...	...	<u>1,970,000</u>	<u>1,970,000</u>	<u>1,884,000</u>
Program Improvements/Offsets	+95,000	-100,947	...	-5,947	+95,000	+101,000

a/ Includes an estimated \$582 thousand transfer from the Public Housing Capital Fund for implementation of the Rental Assistance Demonstration (RAD).

b/ Includes an estimated \$20 million that will be transferred for the implementation of RAD.

c/ Carryover includes \$96.7 million in actual carryover and \$4.2 million in recaptures realized in fiscal year 2014. Excludes carryover in the amount of \$284 thousands from 1974 to 1975 (Mandatory BA) that will be returned to treasury and is unavailable as a resource.

d/ Includes an estimated transfer to the Transformation Initiative (TI) account of \$15 million of Budget Authority and an estimated \$31.6 million that will be transferred for the implementation of RAD.

1. What is this request?

The Department requests \$1.970 billion for the Public Housing Capital Fund, which is an increase of \$95 million from the 2015 enacted level. This request is comprised of:

- \$1.815 billion for Public Housing Capital Fund grants, the primary funding source for public housing rehabilitation and development (this amount is net of estimated \$31.6 million RAD transfer);
- \$100 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; and
- \$3 million for Financial and Physical Assessment Support, which funds financial and physical assessment for rental housing assistance programs.

Key outcomes of the Capital Fund program are:

- Improving the quality of public housing;
- Increasing occupancy in public housing;

Public Housing Capital Fund

- Decreasing energy costs; and
- Leveraging federal resources.

Proposals in the Budget

- Provide Additional Operating/Capital Fund Flexibility;
- Expand the Moving-to-Work (MTW) Demonstration Program; and
- Authorize Tribally Designated Housing Entities to Administer a Jobs-Plus Program Using Jobs-Plus 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 public housing authorities (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. More than 50 percent of these households consist of fixed-income seniors or families in which the head-of-household is a disabled person. Of the amount requested for fiscal year 2016, approximately \$1.815 billion will fund Public Housing Capital Fund grants. This is equivalent to 53 percent of the recommended annually accrued need.

Eligible uses of Capital Fund formula grants include, but are not limited to:

- Addressing deferred maintenance needs;
- Development, financing, and rehabilitation activities;
- Vacancy reduction;
- Resident relocation;
- Programs supporting economic self-sufficiency of public housing residents;
- Resident security and safety activities;
- Homeownership activities;
- Integrated utility management and energy saving measures; and
- Debt service due to unit rehab.

Public Housing Capital Fund

Accessing Private Capital. Recognizing the need to identify capital resources other than from direct grants, the Department was granted the authority 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.

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 2016 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 2015. In addition, 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 depends on adequate funding of the Capital Fund program. Conversion rents for PHA participants in RAD are based on current funding; thus a reduction may impede conversions under RAD. A 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. The credit rating agencies have issued negative outlooks or downgrades 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.

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.

Job-Plus Initiative. The Department requests \$100 million to support the Jobs-Plus Initiative, 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. The increase in funding from the prior year will allow more PHAs to participate, including those with larger and higher cost developments. It will also potentially provide flexibility around program length and maximum grant size.

This approach, piloted in 1996, offers PHAs the additional resources needed to focus intensively on employment-related activities and incentives for residents. In the Jobs-Plus demonstration that ran from 1998 to 2003, residents in developments where the program was well-implemented earned about 14 percent more per year than residents in comparison developments. Subsequent

Public Housing Capital Fund

follow-up research by MDRC indicates that this earnings difference could be sustained—and could even grow—after the program ended.

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 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.

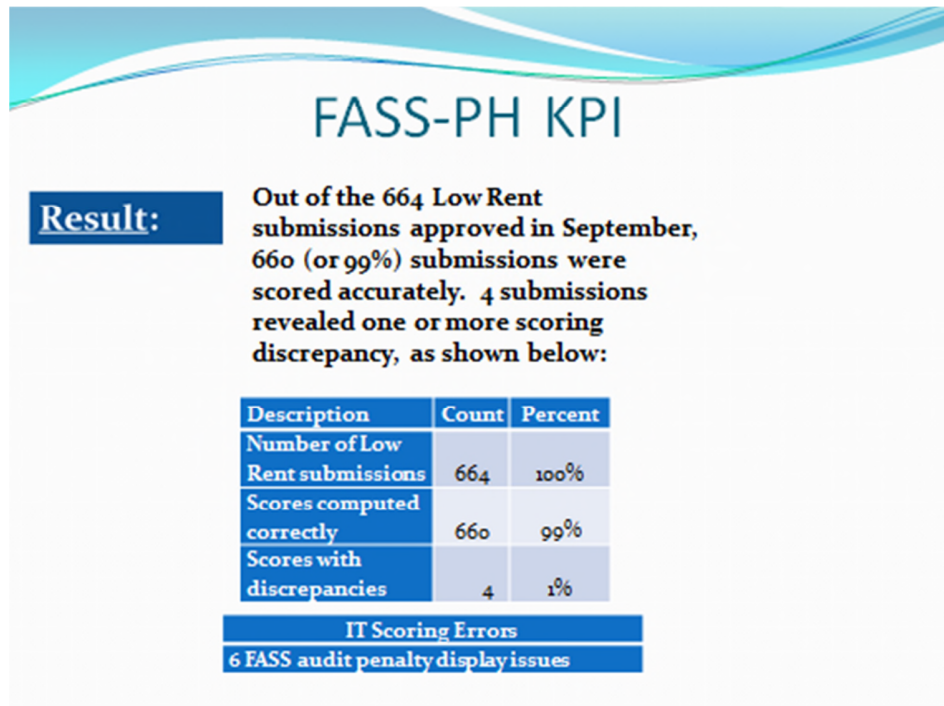
Financial and Physical Assessment Support. The Department requests up to \$3 million to support financial and physical assessment support for rental housing assistance programs. These activities are primarily performed by the Real Estate Assessment Center (REAC), which provides the Offices of Housing 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 2016 request, represents the Department's active plan for Financial and Physical Assessment Support for Rental Housing Assistance programs.

Public Housing Capital Fund

REAC Financial and Physical Assessment Obligations and Activities by Fiscal Year		
	FY 2015 (estimated)	FY 2016 (estimated)
Projected BA carryover into FY	\$17,557,320	\$9,575,881
Projected new BA in FY	5,000,000	3,000,000
Total funds available for FY (Carryover + new BA)	\$22,557,320	\$12,575,881
Estimated Obligations by Activity		
	FY 2015 (estimated)	FY 2016 (estimated)
Physical Assessments (Conduct physical inspections of PHAs, quality assurance reviews and provide reports.)	\$2,054,232	\$4,078,223
Financial Assessments (Conduct financial reviews of PHAs, audits, quality assurance reviews and provide reports.)	5,358,329	3,303,786
Program Support (All other activities such as R&D quality assurance, Technical Assistance Center, IMS/PIC to support the creation of Financial and Physical Assessments.)	5,568,878	5,176,336
Total funds obligated	\$12,981,439	\$12,558,345
Total Carryover into Next FY	\$9,575,881	\$17,536

Public Housing Capital Fund

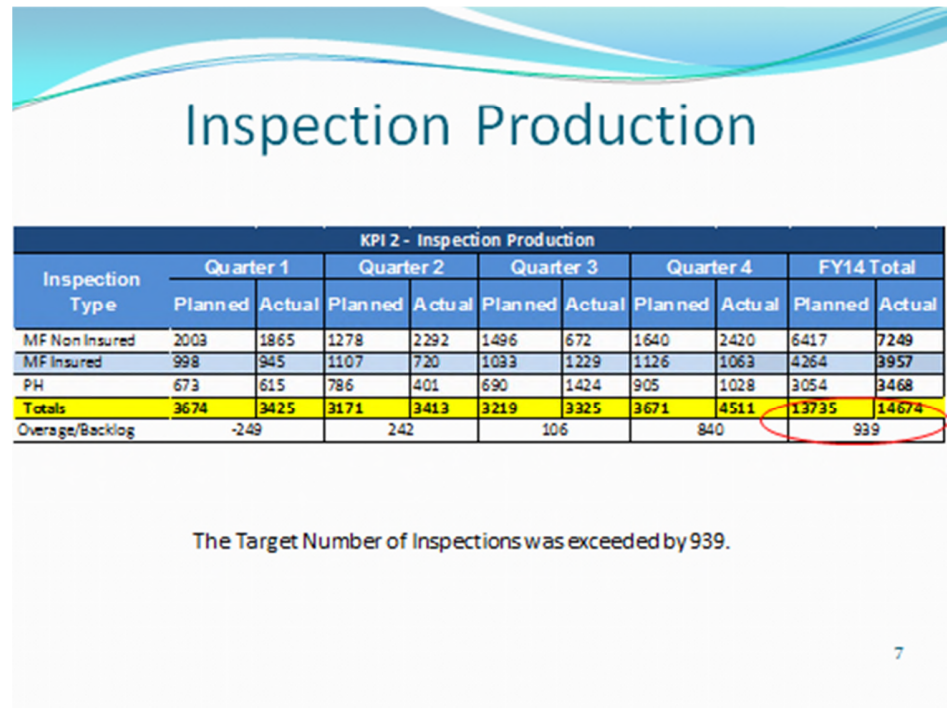
- Financial Assessment: The REAC Financial Assessment Subsystem for Public Housing (FASS-PH) assesses the financial condition of approximately 3,100 PHAs that receive HUD funds to manage and operate public housing units. In addition to assessing PHAs' financial health, FASS-PH conducts various analyses to aid in improving PHAs' financial outlook by identifying, addressing and mitigating risks. FASS-PH also receives comments from agencies' independent financial auditors. FASS-PH enables the Offices of Housing and PIH managers and decision-makers to determine where their customer support, assistance, and recovery assets are most needed. FASS-PH's independent calculations of project and PHA financial scores from approved submissions show 99 percent of system generated FASS-PH scores are accurate.



- Physical Assessment: REAC's Physical Assessment Subsystem (PASS) manages the physical assessment protocols required to evaluate the overall physical condition of approximately 7,200 Public Housing and 30,000 Multifamily

Public Housing Capital Fund

Housing properties that receive rental assistance or are insured by the Federal Housing Administration mortgage insurance program. Inspections are conducted periodically by Reverse Auction sourced inspectors using a risk-based approach, with the lowest scored properties being inspected annually. PASS completes 90 percent of target inspection production by inspection type (MF Non-Insured, MF Servicing Mortgagee and Public Housing).



REAC has introduced several tools and processes to improve the inspection procedure and outputs. The White House Physical Inspection Alignment project has conducted 1,200 aligned inspections, creating more inspection uniformity, reduced costs, and limited duplicative physical inspections performed by different government entities. Photo capability has put REAC's inspection program on par with commercial industry standards and is providing validation of the inspection results and clear evidence of housing deficiencies.

Public Housing Capital Fund

- Program Support: 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.
- 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. Balances from prior fiscal years are sufficient to support the costs of administrative and judicial receiverships in fiscal year 2016; therefore, the Budget requests no additional funding for this activity.

PIH is establishing an Enterprise Risk Management (ERM) model based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) ERM integrated framework. Based on modern risk management best practices, the ERM model will enhance identification and prioritization of risk and management of appropriate mitigation strategies. The goal is to change the business processes of PIH offices allowing management to make better resource decisions, proactively develop strategies for addressing risks and embracing opportunities, and standardize risk management decision making criteria.

PIH continues to refine and implement 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 of PHAs. 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. Preemptive measures, however, will not necessarily prevent receiverships from occurring.

A discussion of why a PHA might end up in receivership has been provided to the Committees on Appropriations in the annual report "Status of PHAs under Administrative and Judicial Receivership," submitted earlier this year. It also covers the types of technical assistance HUD provides. Since fiscal year 2013, PIH has engaged technical assistance providers for PHAs under receivership using contract procurement actions and competitively awarded cooperative agreements.

In fiscal year 2014, HUD transitioned three PHAs out of administrative receivership and back to local control: the Housing Authority of the City of Cocoa (HACC), the Virgin Islands Housing Authority (VIHA), and the Housing Authority of New Orleans (HANO). These transitions followed capacity building and technical assistance with an emphasis on governance, financial management, and asset redevelopment. The judicial receivership of the Housing Authority of

Public Housing Capital Fund

Kansas City also ended in 2014. The Detroit Housing Commission, Lafayette Housing Authority, East St. Louis Housing Authority and Wellston Housing Authority are each expected to transition to local control by the end of calendar year 2015.

Below is a breakdown of projected obligations and carryover.

Administrative and Judicial Receiverships Obligations and Activities by Fiscal Year		
	FY 2015 (Estimated)	FY 2016 (Estimated)
Total Carryover at FY Start	\$6,415,136	\$4,315,136
Budget Authority	\$3,000,000	\$0
Total funds available for FY (Carryover + BA)	\$9,415,136	\$4,315,136
Activities		
	FY 2015 (Estimated)	FY 2016 (Estimated)
Gary Housing Authority Recovery Administration	\$1,600,000	\$0
East St. Louis Repositioning	\$500,000	\$0
Community Compass Technical Assistance NOFA ¹	\$3,000,000	\$3,000,000
Total funds obligated	\$5,100,000	\$3,000,000
Total Carryover into Next FY	\$4,315,136	\$1,315,136
¹ FY 2014 Community Compass Technical Assistance NOFA obligations are anticipated to fund activities that include approximately \$1M in financial services technical assistance at Gary Housing Authority and \$2,000,000 in technical assistance at anticipated new receiverships.		

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

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. However, more than half of the nation's public housing stock was constructed prior to 1970 and requires significant rehabilitation. The most recent Capital Needs Assessment (CNA), completed in 2010, estimated the backlog of unmet public housing capital need at approximately \$26 billion. 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.

Despite a national shortage of affordable rental housing, only one in four families eligible for federal rental assistance programs receives such assistance. HUD's forthcoming report to Congress, *Worst Case Housing Needs 2013*, reveals that among very low-income renter households that lacked assistance in 2013, 7.7 million had worst case housing needs resulting from severe rent burden (paying more than one-half of their monthly income for rent) or living in severely inadequate housing units. From 2003-2013, worst case needs have increased by 48.9 percent as public-sector housing assistance and private-sector housing development have substantially failed to keep up with the growing demand for affordable rental housing.

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. Increased demand and static or shrinking supply have resulted in unprecedented wait times for housing assistance; as a result, many communities have closed their waitlists.

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

- Improving the quality of public housing. 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. Despite the addition of replacement public housing units, there has been a net loss of over 135,000 public housing units since fiscal year 2000, representing an average loss of approximately 9,000 units annually. As units are lost, residents are displaced and housed through the Housing Choice Voucher program, likely at a higher cost per family over time. This request empowers PHAs to meet as many of their capital needs as possible in fiscal year 2016, given constraints in the current fiscal environment, while HUD continues to pursue long-term solutions to address properties' capital needs, such as through RAD and Choice Neighborhoods.
- Increasing occupancy in public housing. HUD's goal is to maintain occupancy of public housing units at 96 percent of available inventory. 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. In

Public Housing Capital Fund

fiscal year 2014, more than 2,000 additional public housing units were developed, due in part to physical improvements made through Capital Fund programs. The fiscal year 2016 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. HUD's goal is to complete cost-effective energy, green, and healthy retrofits of 85,000 HUD-supported affordable homes in fiscal year 2015. In fiscal year 2014, the Capital Fund contributed to achieving this goal by enabling PHAs to make more than 5,493 units and unit equivalents more energy efficient, and build an additional 795 green units.
- Leveraging federal resources. Given the current federal fiscal environment, PHAs cannot meet needs by using only federal funds and must leverage outside investment. One of the programs created to achieve this purpose is the CFFP. HUD has approved approximately 186 transactions involving 246 PHAs through the CFFP. The total amount of loan and bond financing approved to date is approximately \$4.5 billion. 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.

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.

Public Housing Program Tenant Characteristics

<p>Who Does Public Housing Serve? The public housing program serves 2.3 million Americans in 1.1 million households.</p>	<p>Who are Public Housing Tenants? The PH Program serves a diverse demographic mix. 67% of residents are in a minority group</p> <table border="1"> <thead> <tr> <th>White, non-Hispanic</th> <th>Black</th> <th>Hispanic</th> <th>Asian/P.I.</th> <th>Nat. American</th> </tr> </thead> <tbody> <tr> <td>29%</td> <td>45%</td> <td>23%</td> <td>3%</td> <td>1%</td> </tr> </tbody> </table>		White, non-Hispanic	Black	Hispanic	Asian/P.I.	Nat. American	29%	45%	23%	3%	1%	<p>Head of Household Characteristics</p> <ul style="list-style-type: none"> Families with children - 40% Elderly - 34% Non-elderly disabled - 31% 										
White, non-Hispanic	Black	Hispanic	Asian/P.I.	Nat. American																			
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<p>Percentage of Public Housing by Family Size</p> <table border="1"> <thead> <tr> <th>Family Size</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>1 Person</td> <td>46%</td> </tr> <tr> <td>2 People</td> <td>21%</td> </tr> <tr> <td>3 People</td> <td>15%</td> </tr> <tr> <td>4+ People</td> <td>18%</td> </tr> </tbody> </table>	Family Size	Percentage	1 Person	46%	2 People	21%	3 People	15%	4+ People	18%	<p>Percentage Age of Head of Household</p> <table border="1"> <thead> <tr> <th>Age Group</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>% 62 or more</td> <td>34%</td> </tr> <tr> <td>% 51 to 60</td> <td>20%</td> </tr> <tr> <td>% 25 to 49</td> <td>43%</td> </tr> <tr> <td>% 24 Years or Less</td> <td>5%</td> </tr> </tbody> </table>		Age Group	Percentage	% 62 or more	34%	% 51 to 60	20%	% 25 to 49	43%	% 24 Years or Less	5%	<p>Share of Rent from HUD and Assisted Households The average household contribution to rent (includes utilities) per month is \$275. HUD contributes an average of \$512 per month (operating subsidy) and capital grants</p>
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<p>Income Levels of Assisted Households Tenants make an average gross income of \$13,724.</p> <table border="1"> <thead> <tr> <th colspan="2">Distribution of PH Household's Income %</th> </tr> </thead> <tbody> <tr> <td>\$0 - \$20,000 per year</td> <td>81%</td> </tr> <tr> <td>More than \$20,000 per year</td> <td>19%</td> </tr> </tbody> </table> <p>The average household income was 25% of the local area median income.</p>		Distribution of PH Household's Income %		\$0 - \$20,000 per year	81%	More than \$20,000 per year	19%	<p>Household Incomes Compared to their Local Area Median Income*</p> <table border="1"> <tbody> <tr> <td>Extremely Low Income (Less than 30% AMI)</td> <td>72%</td> </tr> <tr> <td>Very Low Income (30% to 50% AMI)</td> <td>19%</td> </tr> <tr> <td>Low Income (50% to 80% AMI)</td> <td>9%</td> </tr> </tbody> </table>		Extremely Low Income (Less than 30% AMI)	72%	Very Low Income (30% to 50% AMI)	19%	Low Income (50% to 80% AMI)	9%								
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HUD's income limits are adjusted based on actual median incomes for the state and locality (metropolitan area).

*30 percent of AMI is approximately \$19,170 per year for a 4-person household, (national estimate - adjusted based on actual state and local incomes) and \$13,420 for a single person. Note, that the US national poverty guideline for 2014 was set at \$23,850 for a 4-person household (the guidelines are not adjusted locally, but provide a single limit for the 48 contiguous states and DC).

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.

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

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 Capital Fund preserves as many of these units as possible to mitigate the heightened costs of future replacement. It is essential to protecting the economic value of the nation's public housing inventory and to serving some of the most economically vulnerable families.

Capital Fund Expenditures Contribute Significantly to Local Economies. Direct spending by PHAs on capital improvements, construction, maintenance, and operations totals 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 186 transactions. Additionally, Capital Funds have also been used to leverage other sources of funds to create public housing units. In fiscal years 2007 through 2014, \$2.12 billion in Capital Funds were invested in mixed-finance transactions to leverage \$7.9 billion in private and other public funding sources. A total of 165 PHAs closed 439 mixed-finance transactions during the 8-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. By fiscal year 2016 HUD anticipates full implementation of the green Physical Needs Assessment (PNA) in public housing as identified in HUD's Strategic Plan.

Public Housing Capital Fund

Selected examples are summarized below.

- **Philadelphia (PA) Housing Authority (“PHA”).** The PHA’s LEED Gold Norris Apartments has been recognized for outstanding achievement by the Mid-Atlantic Regional Council of the National Association of Housing and Redevelopment Officials (NAHRO). Norris Apartments is PHA's first-ever LEED certified development, and meets nationally accepted standards for planning, design, construction, and operation of high-performance green buildings. Energy savings for the apartment units are projected at 29 to 39 percent, while the townhomes are projected to save 38 to 45 percent, compared to conventionally -built units. The design includes a small pocket park in the center courtyard that provides green space for residents while limiting rainwater runoff into the city sewer system. Norris Apartments is a transit-oriented development near the Temple University Station, a hub for all of SEPTA's regional rail lines, and is ideally located near a variety of educational services and the commercial corridor of Broad Street. The 51-unit redevelopment effort complements ongoing public and private development in the neighborhood and has attracted positive attention from students and private citizens in the area. PHA invested approximately \$45 million in Capital Funds leveraging over \$92 million in private and other public funds.
- **Pinellas County (FL) Housing Authority (“PCHA”).** PCHA developed Pinellas Heights, a new mixed-finance, energy-efficient community for seniors with incomes below 60 percent of AMI. Funding for the \$24 million community included Capital Funds as well as funds from several other non-profit, public and private sources. Pinellas Heights features 153 units, including 21 public housing units. Pinellas Heights received the National Green Building Standards Silver designation. Energy efficient features will help those with limited incomes stretch their budgets, and key design elements will help to resist storms and foster the safety of the residents. In addition, Pinellas Heights has as a library, a computer lab, an exercise room, a dining room, meeting rooms, seating areas, and onsite management offices.

5. Proposals in the Budget

- Provide Additional Operating/Capital Fund Flexibility. The 2016 Budget proposed to allow PHAs with more than 250 units the flexibility to transfer up to 30 percent of Capital Funds to Operations; allow Operating Reserve Funds to be used not only for operating purposes, but also for capital improvements; and establish a Capital Fund Replacement Reserve to be held by Treasury in LOCCS.

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.

Public Housing Capital Fund

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 rehabilitation 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 to access their funds HUD. With a \$26 billion backlog in capital needs, PHAs need greater flexibility to address as much need as possible with the limited resources available.

HUD proposes to allow PHAs with more than 250 public housing units to transfer up to 30 percent of their Capital Funds to their Operating Fund. PHAs would be allowed to use these funds for operating expenses. In addition, such PHAs would be allowed to use their operating reserves for capital expenditures.

This proposal would not increase HUD or PHA expenditures, but shift funding. Based on the fiscal year 2014 allocation of funds, this would impact 791 PHAs. Using the fiscal year 2016 request for funding, approximately \$162 million could be transferred from the Capital Funds of these PHAs to their Operating Funds and Operating Fund reserves.

Also, PHAs would be allowed to establish a capital reserve account. A Capital Fund Replacement Reserve account would allow PHAs to accumulate funds for large-scale capital expenditures identified in their Physical Needs Assessments. The reserve account would be held by the Treasury in LOCCS.

Replacement reserve accounts are routinely used in the private sector and are required for multifamily properties insured by the Federal Housing Administration. These accounts improve the ability of PHAs, especially small PHAs, to address their backlog of capital needs by allowing PHAs to accumulate sufficient funding across several years to engage in large capital projects without need of financing.

Establishing a replacement reserve account would be a voluntary option for PHAs. HUD has discussed this proposal with the industry, who support this concept in theory. It is unknown what percentage of PHAs would opt to use these accounts.

To facilitate this proposal, HUD is recommending eliminating the current 2-year obligation and 4-year expenditure requirements for Capital Funds placed in replacement reserve accounts. Instead, HUD would specify a new timeframe for expenditure of those funds, and would also establish a limit to the amount a PHA could maintain in its replacement reserve accounts. PHAs would identify the proposed use of the funds. (Section 223)

Public Housing Capital Fund

- Expand 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, mobility, cost-effectiveness and other priority areas. Key tenant protections will continue to apply and PHAs will be subject to rigorous reporting and evaluation requirements. Up to fifteen PHAs, managing no more than 150,000 combined Housing Choice Voucher and Public Housing units, would be selected competitively. (Section 242)
- Authorize Tribally Designated Housing Entities to Administer a Jobs-Plus Program Using Jobs-Plus funds. HUD proposes to allow tribes and tribally designated housing entities (TDHEs) to administer a Jobs-Plus pilot program funded from the Jobs-Plus appropriation. This pilot program would be informed by the MDRC Jobs-Plus demonstration, and incorporate lessons learned from the Jobs-Plus program grants currently being competed. The core components of the program would remain the same – a rent incentive that encourages work, job promotion and training activities for tribal members and clients of TDHEs, and community support for work that involves saturation of the community with positive work messages. The pilot would be tailored to account for the specific needs of Indian Country. (Account Language)

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>2014 Budget Authority</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2014 Obligations</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2016 Request</u>
Formula Grants	\$1,786,418	\$20,495	\$1,806,913	\$1,802,789	\$1,764,000	\$11,274	\$1,775,274	\$1,815,432
Emergency/Disaster Reserve	20,000	8,451	28,451	21,204	23,000	4,530	27,530	20,000
Resident Opportunities and Supportive Services	45,000	17,394	62,394	17,378	45,000	45,175	90,175	...
Administrative Receivership .....	...	16,527	16,527	10,111	3,000	6,415	9,415	...
Financial and Physical Assessment Support ...	8,000	18,809	26,809	9,250	5,000	17,557	22,557	3,000
Tenant Opportunity ....	...	...	...	...	...	...	...	...
Jobs-Plus	15,000	...	15,000	...	15,000	15,000	30,000	100,000
Technical Assistance ..	...	1,330	1,330	380	...	996	996	...
Capital Fund Training and Education Facilities .....	...	...	...	...	...	...	...	...
Rental Assistance Demonstration (transfer)	582	...	582	...	20,000	...	20,000	31,568
Transformation Initiative (transfer)	...	...	...	...	...	...	...	[14,972]
Total	1,875,000	83,006	1,958,006	1,861,112	1,875,000	100,947	1,975,947	1,970,000

NOTES:

The Rental Assistance Demonstration transfers reflected are the estimated amounts needed 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 2016 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~~] *\$1,970,000,000*, to remain available until September 30, [2018] *2019*: *Provided*, That notwithstanding any other provision of law or regulation, during fiscal year [2015] *2016* 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 [~~\$5,000,000~~] *\$3,000,000* shall be to support ongoing Public Housing Financial and Physical Assessment activities: [*Provided further*, That up to \$3,000,000 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 [~~\$23,000,000~~] *\$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 [2015: *Provided further*, That of the amount made available under the previous proviso, not less than \$6,000,000 shall be for safety and security measures: *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.)] *2016*: *Provided further*, That of the total amount made available under this heading, up to [~~\$15,000,000~~] *\$100,000,000* 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

Public Housing Capital Fund

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 for funds provided under this heading, the limitation in section 9(g)(1) of the Act shall be 25 percent: *Provided further*, That the Secretary may waive the limitation in the previous proviso to allow public housing agencies to fund activities authorized under section 9(e)(1)(C) of the Act:**]** *Provided further, That of the amount provided for the Jobs-Plus initiative, the Secretary may set aside up to \$15,000,000 for competitive grants to Indian tribes and tribally designated housing entities, as defined in section 4(13) of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), to provide support to help residents of housing assisted under NAHASDA obtain employment and increase earnings: Provided further, That such assistance shall be modeled after the Jobs-Plus initiative, with necessary and appropriate adjustments made by the Secretary for NAHASDA grant recipients and families living on or near a reservation or other Indian areas: Provided further, That the Secretary may waive, or specify alternative requirements for, any provision of any statute that the Secretary administers in connection with the use of funds made available under this heading, upon a finding by the Secretary that any such waivers or alternative requirements are necessary for the effective use of grants under the previous proviso and after publication in the Federal Register not later than 10 days before the effective date of such waiver or alternative requirement: Provided further, That from the funds made available under this heading, the Secretary shall provide bonus awards in fiscal year **[2015]** 2016 to public housing agencies that are designated high performers[:* *Provided further*, That the Department shall notify public housing agencies of their formula allocation within 60 days of enactment of this Act]. (Department of Housing and Urban Development Appropriations Act, 2015.)